

Hawkley Oil and Gas Limited

Consolidated Interim Financial Report

A.B.N. 72 124 772 041

For the Half-Year Ended 31 December 2015

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For the Half-Year Ended 31 December 2015

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Directors' Report

31 December 2015

Your directors submit their report, together with the interim financial statements of the Group, being Hawkley Oil and Gas Limited (the company) and its controlled entities (the Group) for the half year ended 31 December 2015.

Directors

The names of the directors in office at any time during, or since the end of, the half year are:

Names	Position	
Mr. Glenn Featherby	Executive Chairman	
Mr. Bill Foster	Non-Executive Director	
Mr. Piers Lewis	Non-Executive Director	(Appointed 14 March 2016)
Mr. Murray Wylie	Non-Executive Director, Company Secretary	(Appointed director on 19 February 2016)
Mr. Anthony Reilly	Non-Executive Director	(Resigned 19 February 2016)

Operating results

The consolidated loss of the Group for the half year ended 31 December 2015 amounted to \$557,133 (31 December 2014: \$9,702,515 loss), after providing for income tax. Overhead costs were substantially less than for the corresponding prior period.

Review of operations

UKRAINE OPERATIONS

Production of gas and gas condensate from the Sorochynska 201 well in Ukraine ceased in December 2014, due to water influx. The Company's efforts to restart production, including installation of additional compression equipment, have proven unsuccessful. Since that time, Hawkley has continued to pursue potential farm-in and joint venture options to maximize value from its existing Ukraine assets. With the ongoing political tensions and conflict between Ukraine and Russia, it has not been possible to attract any investment monies for the Ukraine.

GEOPOLITICAL EVENTS

Following the onset of hostilities in Crimea in February 2014, the unstable political and economic situation has made Ukraine a difficult place in which to operate. The Ukraine government implemented emergency measures including capital controls to limit withdrawals from the country's banking system in order to safeguard the economy and protect foreign exchange reserves. In August 2014, the Ukrainian Government passed emergency budget legislation to significantly increase production taxes for independent oil and gas companies from 1 August 2014. The royalty rates for gas were approximately doubled to 55%. This increase was an emergency budget measure that was a significant factor when assessing the economic prospects of potential well workovers and other investments within Ukraine. The royalty rates have only recently returned to previous levels.

The Company has also sought opportunities in other regions that meet Hawkley's criteria and do not require significant acquisition capital to be raised as well as considering potential corporate transactions to increase value for shareholders. The Board has placed a greater emphasis on considering opportunities outside the Ukraine region in order to provide geographic and political diversity. Further, with the sustained downturn in the oil & gas sector and negativity within the capital markets, the Board has broadened its scope to consider opportunities in other sectors.

SALE OF UKRAINE ASSETS

On 2 February 2016, Hawkley announced that it had entered into a binding agreement with Tomeas Assets Limited ("Tomeas") for the sale, subject to shareholder and regulatory approvals, of its 100%-owned Ukraine assets for cash settlement of US\$1,000,000. A deposit of US\$100,000 has since been received with the balance of US\$900,000 to be paid at completion.

A meeting of shareholders is to be held on 16 March 2016 at which approval will be sought for the disposal of the Company's main undertaking in accordance with ASX Listing Rule 11.2. The sale will allow the Company to meet its liabilities and provide a surplus cash position and the opportunity to seek a new direction to generate shareholder value.

Directors' Report

31 December 2015

CORPORATE

At the AGM in November 2015, shareholders approved conversion rights in relation to two unsecured loans provided by an entity associated with the Chairman and an entity associated with a major shareholder. A total of A\$255,000 had been provided to Hawkley under the loans to provide additional working capital. Although shareholder approval had been obtained, the lenders elected not to convert their debts into shares.

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the end of the reporting period, additional funding was obtained to repay the convertible loans. The new unsecured loan is from a third party for A\$270,000. The loan is repayable by 30 April 2016, incurs interest of 4.5% per annum and is expected to be repaid from the proceeds from the sale of the Ukraine assets. In January 2016 A\$159,249 was paid to Hay Street Property Pty Ltd in settlement of its convertible loan.

On 2 February 2016, Hawkley announced that it had entered into a binding agreement with Tomeas Assets Limited ("Tomeas") for the sale, subject to shareholder and regulatory approvals, of its 100%-owned Ukraine assets for cash settlement of US\$1,000,000. A deposit of US\$100,000 has since been received with the balance of US\$900,000 to be paid at completion. A meeting of shareholders is to be held on 16 March 2016 at which approval will be sought for the disposal of the Company's main undertaking in accordance with ASX Listing Rule 11.2.

On 19 February 2016, Mr. Anthony Reilly resigned from his position as a Non-Executive Director of Hawkley. Mr. Reilly had been a director of Hawkley since October 2014. Mr. Murray Wylie, Hawkley's Company Secretary, was appointed to the Board as a Non-Executive Director also on 19 February 2016. Mr. Piers Lewis was also appointed to the Board as a Non-Executive Director on 14 March 2016.

On 14 March 2016, Hawkley announced that it had entered into a mandate agreement with Merchant Capital Markets Pty Ltd ("Merchant") to act as lead manager to introduce potential corporate transactions to Hawkley. The agreement includes a placement for the issue of 43,227,200 fully paid ordinary shares at A\$0.003 per share under the Company's 15% placement capacity to raise A\$129,681 cash before costs. The placement was completed on 14 March 2016.

Apart from other events which are described above in this Director's Report, there has not arisen in the interval between the end of the financial period and the date of this report any other item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to effect:

- i. the Consolidated Entity's operations in future financial years; or
- ii. the results of those operations in future financial years; or
- iii. the Consolidated Entity's state of affairs in future financial years.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2015 has been received and can be found on page 4 of the financial report.

This report is signed in accordance with a resolution of the Board of Directors.



Director:

Mr Glenn Featherby

Dated 15 March 2016

Directors' Declaration

The directors of the Company declare that:

- 1. The financial statements and notes, as set out on pages 5 to 11 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the consolidated group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date.
- 2. Subject to the matters outlined in Note 1, in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director
Mr Glenn Featherby

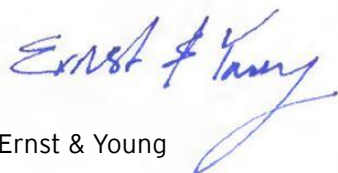
Dated 15 March 2016

Auditor's Independence Declaration to the Directors of Hawkley Oil and Gas Limited

As lead auditor for the review of Hawkley Oil and Gas Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hawkley Oil and Gas Limited and the entities it controlled during the financial period.



Ernst & Young



D A Hall
Partner
Perth
15 March 2016

Consolidated Statement of Comprehensive Income

For the Half Year Ended 31 December 2015

	31 December 2015 \$	31 December 2014 \$
Revenue	-	3,191,951
Cost of sales	-	(2,904,314)
Gross (loss)/profit	-	287,637
Other income	73,057	547,942
Administrative expenses	(463,151)	(3,282,768)
Impairment of assets	-	(3,016,910)
Gains/(loss) on foreign currency	(167,039)	(4,238,416)
Loss before income tax	(557,133)	(9,702,515)
Income tax benefit/(expense)	-	-
Loss after tax for the half year	(557,133)	(9,702,515)
Other comprehensive income, net of income tax		
Items that will be reclassified to profit or loss when specific conditions are met		
Exchange differences on translation of foreign operations	176,709	3,738,459
Total comprehensive loss for the half year	(380,424)	(5,964,056)
Loss attributable to:		
Members of the parent entity	(380,424)	(5,964,056)
Total comprehensive loss attributable to:		
Members of the parent entity	(380,424)	(5,964,056)
Earnings per share		
From continuing and discontinued operations:		
Basic loss per share (cents)	(0.19)	(3.37)
Diluted loss per share (cents)	(0.19)	(3.37)

Consolidated Statement of Financial Position

As at 31 December 2015

		31 December 2015	30 June 2015
	Note	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		117,365	109,815
Trade and other receivables		12,229	38,960
Other assets		14,968	30,610
TOTAL CURRENT ASSETS		144,562	179,385
NON-CURRENT ASSETS			
Plant and equipment	3	-	118
TOTAL NON-CURRENT ASSETS		-	118
TOTAL ASSETS		144,562	179,503
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		686,021	579,217
Loans		468,447	226,973
TOTAL CURRENT LIABILITIES		1,154,468	806,190
NON-CURRENT LIABILITIES			
Provisions		176,688	179,483
TOTAL NON-CURRENT LIABILITIES		176,688	179,483
TOTAL LIABILITIES		1,331,156	985,673
NET ASSETS		(1,186,594)	(806,170)
EQUITY			
Issued capital	4	38,350,437	38,350,437
Reserves		16,057,532	15,880,823
Accumulated losses		(55,594,563)	(55,037,430)
TOTAL EQUITY		(1,186,594)	(806,170)

Hawkley Oil and Gas Limited

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2015

31 December 2015

	Ordinary Shares	Accumulated losses	Foreign Currency Translation Reserve	Convertible Note Reserve	Share Based Payment Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2015	38,350,437	(55,037,430)	11,847,896	(687,907)	4,720,834	(806,170)
Profit attributable to members of the entity	-	(557,133)	-	-	-	(557,133)
Other comprehensive income	-	-	176,709	-	-	176,709
Balance at 31 December 2015	38,350,437	(55,594,563)	12,024,605	(687,907)	4,720,834	(1,186,594)

31 December 2014

	Ordinary Shares	Accumulated losses	Foreign Currency Translation Reserve	Convertible Note Reserve	Share Based Payment Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	38,072,051	(39,155,680)	4,427,137	(687,907)	4,917,543	7,573,144
Profit attributable to members of the entity	-	(9,702,515)	-	-	-	(9,702,515)
Other comprehensive income	-	-	3,738,459	-	-	3,738,459
Conversion of performance rights	280,000	-	-	-	(280,000)	-
Share issue costs	(1,614)	-	-	-	-	(1,614)
Share based payment	-	-	-	-	56,995	56,995
Balance at 31 December 2014	38,350,437	(48,858,195)	8,165,596	(687,907)	4,694,538	1,664,469

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
For the Half-Year Ended 31 December 2015

	31 December 2015 \$	31 December 2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	99,162	4,053,174
Payments to suppliers and employees	(330,719)	(4,422,551)
Interest received	626	43,291
Income taxes paid	-	(63,826)
Net cash used in operating activities	<u>(230,931)</u>	<u>(389,912)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of plant and equipment	-	(79,829)
Net cash used in investing activities	<u>-</u>	<u>(79,829)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	237,450	-
Net cash provided by financing activities	<u>237,450</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents held	6,519	(469,741)
Cash and cash equivalents at beginning of year	109,815	745,318
Effects of exchange rate changes on cash and cash equivalents	1,031	(54,821)
Cash and cash equivalents at end of the half year	<u>117,365</u>	<u>220,756</u>

Notes to the Financial Statements

For the half-year ended 31 December 2015

1 Basis of preparation

This consolidated interim financial report for the half year ending 31 December 2015 is a general purpose condensed financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 'Interim Financial Reporting'.

The interim consolidated financial report is intended to provide users with an update on the latest annual financial statements of Hawkley Oil and Gas Limited and controlled entities (the Group). As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. This interim consolidated financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the half year.

Except as noted below, the same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

All other new standards and interpretations effective from 1 July 2015 were adopted with the main impact being disclosure changes. Changes to accounting policies due to the adoption of these standards and interpretations are not considered significant for the Group.

Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and realisation of assets and the settlement of liabilities in the normal course of business.

For the half year ended 31 December 2015, the Group generated a consolidated loss of \$557,133 and incurred operating cash outflows of \$230,931. As at 31 December 2015, the Group has cash and cash equivalents of \$117,365 and net current liabilities of \$1,009,906 and net liabilities of \$1,186,594.

In December 2014, production was halted on the Group's sole operating well, the Sorochynska 201 well. The well experienced a sudden significant decrease in production due to water influx. The Group has been unable to recommence production. In absence of cash inflows from the Sorochynska 201 well, the Group needs to source working capital in order to continue as a going concern.

Notwithstanding the above the directors consider they have a reasonable basis to prepare the financial statements on a going concern basis after having regard to the following:

- i) The directors having resolved not to seek repayment of monies owed or owing to them, forecasted to total \$693,742 over the next twelve months from the date of this report, should such repayments place the Group in a position where it would be unable to pay its debts as and when they fall due.
- ii) On 2 February 2016, the Company announced that it had entered into a binding agreement for the sale, subject to shareholder and regulatory approvals, of its Ukraine assets for cash settlement of US\$1,000,000. The deposit of US\$100,000 has been received, the shareholder meeting to seek approval is to be held on 16 March 2016 and, if approved, settlement is expected shortly thereafter.
- iii) On 14 March 2016, the Company announced that it had undertaken a cash placement under its 15% placement capacity to raise A\$129,681 before costs.

Should the Directors not be able to achieve the matters set out above, there is significant uncertainty as to whether the Group will be able to continue as a going concern.

Notes to the Financial Statements

For the half-year ended 31 December 2015

The consolidated financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

2 Operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category, operating segments are therefore determined on the same basis. The Group's sole reporting segment is the oil and gas business located wholly within Ukraine.

The accounting policies applied for internal purposes are consistent with those applied in the preparation of these interim financial statements.

3 Plant and equipment

PLANT AND EQUIPMENT

	31 December 2015 \$	30 June 2015 \$
Plant and equipment		
- at cost	3,122,310	3,122,310
- accumulated depreciation	(432,679)	(432,561)
- accumulated impairment	(2,689,631)	(2,689,631)
Total plant and equipment	-	118

(a) Movements in carrying amounts of plant and equipment

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current half year:

	31 December 2015 \$	30 June 2015 \$
Consolidated		
Balance at the beginning of the period	118	2,473,143
Additions	-	117,238
Depreciation expense	(118)	(132,657)
Impairment expense	-	(2,003,317)
Foreign exchange movements	-	(454,289)
Balance at the end of the period	-	118

During the half year ended 31 December 2015, no impairment of plant and equipment was recognised (30 June 2015: \$2,003,317) as Ukraine plant and equipment was already fully impaired. The impairment related to the cessation of production on the Sorochynska field due to water influx issues. Recoverable amount was determined through value-in-use by discounting expected future cash flows.

A pre-tax discount rate of 29% was applied in the value-in-use calculation. A gas price of Ukraine Hryvnia 125,000/mmcf in 2015 and 126,000/mmcf in 2016 was applied. The key judgment is the time and cost to rectify production issues currently being experienced in the field. Should uncertainties be removed in the future, such as completion of the proposed sale of Ukraine assets, the value-in-use may change.

Notes to the Financial Statements

For the half-year ended 31 December 2015

4 Issued capital

	31 December 2015	30 June 2015
	\$	\$
288,181,427 (30 June 2015: 288,181,427) Share capital - Ordinary	42,420,976	42,420,976
Share issue costs	(4,070,539)	(4,070,539)
Total	38,350,437	38,350,437

5 Related parties

From 1 September 2013, the Company began renting an office at normal market prices from an entity associated with G R Featherby. During the half-year rental payments of \$9,900 (31 December 2014: \$8,250) were made to the entity.

In April 2015, the Company was loaned \$125,000 by a related party of G R Featherby. A further \$30,000 was advanced under the loan during the reporting period. The loan incurs interest at 4.5% and has been repaid subsequent to the end of the reporting period. In April 2015, the Company was also loaned \$100,000 by a related party of V Dmitriyev, who is a major shareholder of Hawkley.

6 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 December 2015 (30 June 2015: nil).

7 Events occurring after the reporting date

Subsequent to the end of the reporting period, additional funding was obtained to repay the convertible loans. The new unsecured loan is from a third party for A\$270,000. The loan is repayable by 30 April 2016, incurs interest of 4.5% per annum and is expected to be repaid from the proceeds from the sale of the Ukraine assets. In January 2016 A\$159,249 was paid to Hay Street Property Pty Ltd in settlement of its convertible loan.

On 2 February 2016, Hawkley announced that it had entered into a binding agreement with Tomeas Assets Limited ("Tomeas") for the sale, subject to shareholder and regulatory approvals, of its 100%-owned Ukraine assets for cash settlement of US\$1,000,000. A deposit of US\$100,000 has since been received with the balance of US\$900,000 to be paid at completion. A meeting of shareholders is to be held on 16 March 2016 at which approval will be sought for the disposal of the Company's main undertaking in accordance with ASX Listing Rule 11.2.

On 19 February 2016, Mr. Anthony Reilly resigned from his position as a Non-Executive Director of Hawkley on 19 February 2016. Mr. Reilly had been a director of Hawkley since October 2014. Mr. Murray Wylie, Hawkley's Company Secretary, was appointed to the Board as a Non-Executive Director also on 19 February 2016. Mr. Piers Lewis was also appointed to the Board as a Non-Executive Director on 14 March 2016.

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No other matters or circumstances have arisen since the end of the half year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

8 Fair value measurement

The carrying value of financial assets and financial liabilities approximate their fair values.

Report on the half-year financial report to the members of Hawkley Oil and Gas Limited

We have reviewed the accompanying half-year financial report of Hawkley Oil and Gas Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hawkley Oil and Gas Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

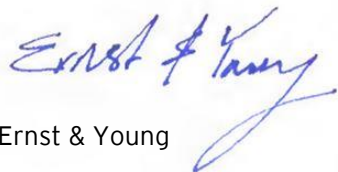
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hawkley Oil and Gas Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.



Ernst & Young



Darryn Hall
Partner
Perth
15 March 2016