

ASX Announcement – 24 October, 2019

## Agreement to Acquire 33% Operating Interest in Producing Oil Project in USA

### HIGHLIGHTS

- Hawkley has entered into a sale and purchase agreement ("SPA") to acquire an approximately 33% interest and operatorship in a producing oil and gas project ("Project") in North Dakota, USA, for total consideration of US\$2.51m (50% cash/50%scrip). The Project comprises 10 wells in 6,600 gross acres located in Burke County, North Dakota, within the Williston Basin.
- Total 12 month production to June 2019 averaged 133 BOPD plus 368 MCF of gas and 42 equivalent BOPD natural gas liquids with net operating cash flows of more than US\$1.1 million (US\$0.4 million for 33% purchase interest).
- Opportunities to significantly increase production with 29 horizontal drilling locations identified and a proven well workover strategy already successfully carried out on some existing wells.
- The Company intends to consolidate its existing capital on a 1:10 basis.
- The acquisition is subject to a number of conditions, including obtaining shareholder approval and re-compliance with Chapters 1 and 2 of the Listing Rules.
- Hawkley intends to raise \$5million-\$7million (before costs) through a public offer, including a priority offer to existing shareholders ("Public Offer")
- Woodchester Capital Pty Ltd ("Woodchester") has been appointed by Hawkley as the Lead Manager for the Public Offer.

### Directors

**Tom Fontaine**

Managing Director

**Murray Wylie**

Non-Executive Director

### Share Information

ASX Code:	HOG
Shares on Issue:	456.2M
Options on Issue:	38.4M
Share Price*:	0.3¢
Market Cap*:	\$1.4M

Hawkey Oil & Gas Limited ("Hawkey" or "the Company") is pleased to announce that it has entered into a sale and purchase agreement ("SPA") with a group of vendors ("Vendors" – see Appendix 1 for details) to acquire an approximately 33% working interest in an operating oil and gas project comprising 10 wells situated on 6,600 gross acres in Burke County, North Dakota ("Acquisition").

In connection with the proposed acquisition under the SPA, and subject to obtaining relevant shareholder approvals, the Company intends to:

- (a) Raise \$300k-\$500k interim funding via convertible notes to be issued to sophisticated and professional investors;

- (b) consolidate its securities on a 1 for 10 basis ("**Consolidation**");
- (c) raise \$5million-\$7million (before costs) through a public offer, including a priority offer to existing shareholders;
- (d) appoint a nominee of the vendors to the board of the Company; and
- (e) seek to re-comply with Chapters 1 and 2 of the Listing Rules.

### About the North Dakota Project

The Company is proposing to acquire an approximately 33% interest and operatorship in an oil and gas project located in Burke County, North Dakota which comprises 10 wells, 6,600 gross acres and 29 identified horizontal drilling locations.

The Project presently has 7 (of its 10) wells in production and achieved net operating cash flows of approximately US\$1.15 million in 2018-19 (being approximately US\$0.4 million based on the Company's proposed 33% acquisition interest).

The Project is focused on the Midale/Nesson formations within the Williston Basin (there are presently around 300 producing wells in the area). During the year ending 30 June 2019, total production for the Project averaged 133 barrels of oil per day (BOPD), plus a further 368MCF (61 equivalent BOPD) of natural gas and 42 equivalent BOPD natural gas liquids. Hawkley is arranging for an independent reserves report to be prepared for inclusion in the forthcoming prospectus.

Hawkley is reviewing a number of options to increase production and reduce operating expenses following completion of the acquisition. The Company intends to drill and frac one new vertical well. The total estimated cost for this is US\$1m, with Hawkley's share being US\$350k. Based on previous wells, the initial production for a new well is anticipated to be 50-100BOPD, reducing to 50BOPD after one month then slowly declining.

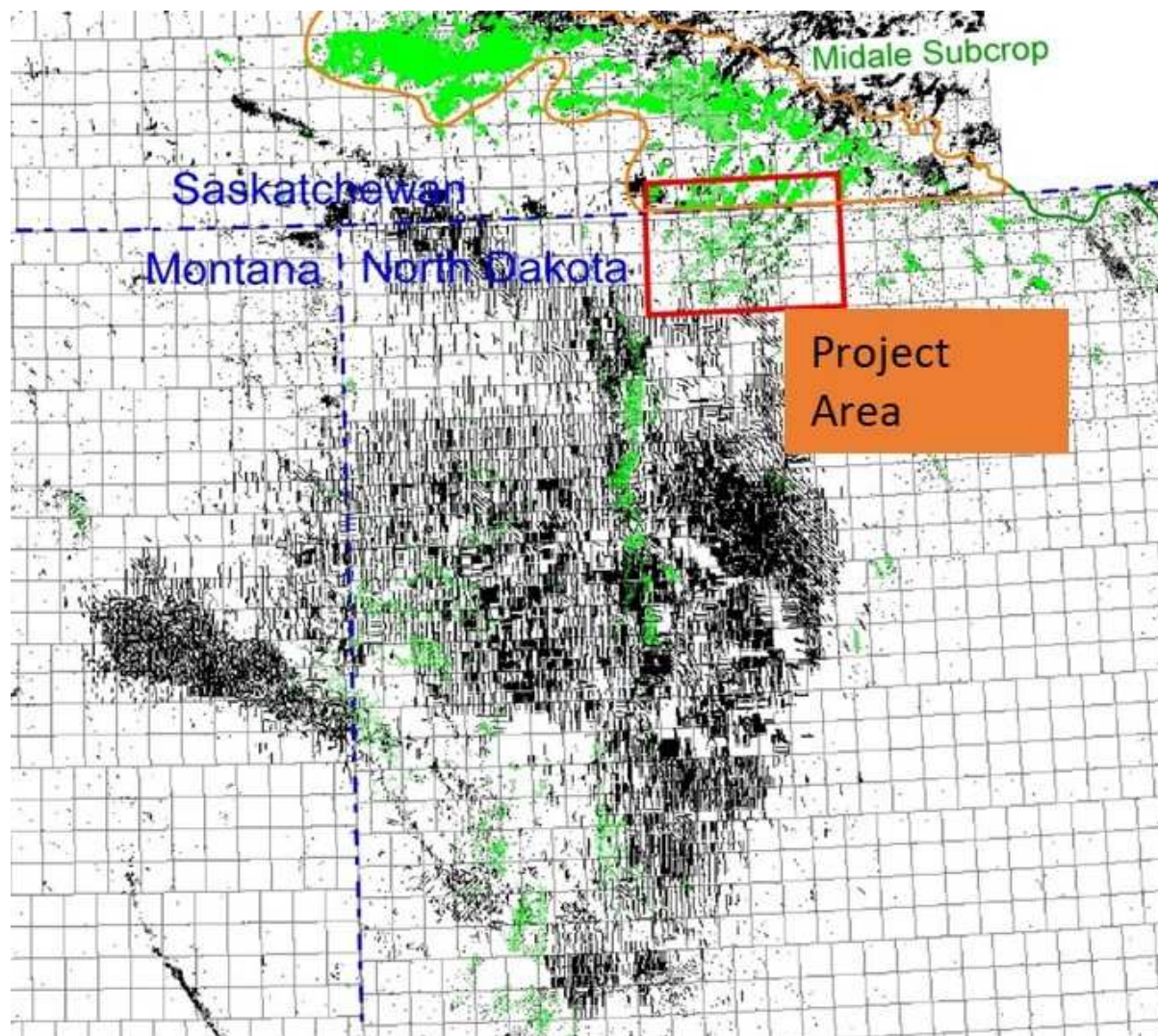
Hawkley is also proposing to carry out a workover and recompletion of an existing well using a strategy that has already been successfully applied. The total cost for this is estimated at US\$1.8M, with Hawkley's share being US\$630k. The process involves casing a preferentially selected one mile lateral in the existing birdsfoot open hole design, then a 20 stage slickwater frac. A similar recompletion of the Paradox Oil 34-31 well resulted in oil flow increasing to about 100BOPD for three months before reducing to 50BOPD then slowly declining as shown below:

**Paradox Oil 34-31 Production**



The Company is also considering a proposal to develop a salt water disposal system that is expected to reduce operating expenditure by approximately US\$8 per barrel. The estimated cost for this is US\$1M, with Hawkley's share being US\$350k.

**Project is located in Burke County, North Dakota, near the Canadian border.**



### **Interim Funding**

The Company is in the process of raising \$300k-\$500k to provide funds to undertake the recompliance with Chapters 1 and 2 of the ASX Listing Rules and for working capital, through the issue of unsecured convertible notes to sophisticated or professional investors. The investors include entities associated with former directors who are no longer considered to be related parties to Hawkley. Subject to shareholder approval, the notes would be convertible following the recompliance at 2 cents per share (post consolidation basis) with 1 free attaching option for every 2 shares with an exercise price of 5 cents per share on or before 31 March 2021.

### **Public Offer**

The Company plans to undertake a capital raising to raise \$5 million-\$7 million (before costs) through the issue of fully paid ordinary shares pursuant to a prospectus, at a price of \$0.03 (3 cents) per share.

The Public Offer is planned to include a priority offer to existing shareholders, with further details to be provided once they have been finalised.

Funds raised will be used to fund the cash consideration of US\$1,256,410 (subject to compliance with ASX Listing Rule 1.1 Condition 11), along with capital projects currently being evaluated to reduce operating costs and to boost production via well workovers and the drilling of a new well. The Company is also reviewing other acquisition opportunities including exploration projects within Australia with the objective of developing and supplying gas to the eastern seaboard of Australia. The Company will keep the market updated as these developments progress.

Hawkley has appointed Woodchester Capital Pty Ltd as the Lead Manager for the Public Offer and to assist with the Interim Funding. Under the terms of the engagement, Hawkley has agreed to issue 20,000,000 shares to Woodchester or its nominees as facilitation/incentive shares to assist with the timely completion of the capital raising. International Island Group Pty Ltd ("IIG") has also been appointed to provide corporate advisory services in relation to the transaction. Hawkley has agreed to issue 12,000,000 shares to IIG or its nominee at completion of the recompliance process.

Below is a table showing the Company's current capital structure and anticipated capital structure on completion of the Acquisition.

	Minimum Subscription		Maximum Subscription	
	Shares	Options	Shares	Options
Currently on issue	456,239,077	25,355,649	456,239,077	25,355,649
Post-Consolidation (1:10)	45,623,908	2,535,565	45,623,908	2,535,565
Interim Funding Convertible Notes	15,000,000	7,500,000	25,000,000	12,500,000
Issued to Vendors	61,815,367 <sup>(1)(2)</sup>	-	61,815,367 <sup>(1)(2)</sup>	-
Advisor Shares	32,000,000	-	32,000,000	-
Directors Shares	20,000,000	10,000,000	20,000,000	10,000,000
Public Offer	166,666,667 <sup>(2)</sup>	-	233,333,333 <sup>(2)</sup>	-
<b>Total (post-Consolidation)</b>	<b>341,105,942</b>	<b>20,035,656</b>	<b>417,772,608</b>	<b>25,035,565</b>

**Note:**

(1) Based on the Consolidation occurring on a 1 for 10 basis (subject to change).

(2) Assumes an issue price of \$0.03.

## Board Composition

It is proposed that at the completion of the acquisition, the board of directors of Hawkley will comprise existing director Tom Fontaine, Jason Ferris of Woodchester, and Jason Spittlehouse as the vendor nominee.

Mr. Ferris is a director of Woodchester Capital. He is based in Perth, Western Australia, and has worked in financial services, property and corporate finance industries for more than 25 years. Mr. Ferris is an experienced company director having served on the board of numerous public and private companies in Australia, South Africa and United Kingdom. He holds an AFSL and is a Fellow of the

Australian Institute of Management (FAIM) and is a Member of the Australian Institute of Company Directors (MAICD). He has also facilitated many joint venture opportunities in the property, tech and mining sectors. He is a current non-executive director of Titanium Sands Limited (ASX:TSL) and resigned on 4 December 2018 from his role as Executive Chairman of Connected IO Limited (ASX:CIO).

Mr. Spittlehouse has held geoscience positions in Australia, UK and SE Asia and holds an MSc from Imperial College, London. Mr. Spittlehouse was a founding director and seed investor at Neon Energy Pty Ltd in 2005. He also founded Houston-based VistaTex Energy LLC in 2010, a privately held producer, operating in seven states, with interests in 50 fields. The company was sold in August, 2014.

### **Proforma Balance Sheet**

The unaudited balance sheet and unaudited proforma balance sheet of Hawkley, both as at 30 September 2019, are set out in Appendix 2.

The financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements but is prepared on the basis of the accounting policies normally adopted by Hawkley and reflect the changes to its financial position.

The proforma has been prepared assuming settlement of the acquisition of the North Dakota Project (incorporating the issue of the consideration securities, the issue of securities for the interim funding and capital raising, and the proposed issue of shares to advisors) and no existing options are exercised.

### **Indicative Timetable**

The indicative timetable for completion of the proposed transaction is outlined below:

<b>Event</b>	<b>Date</b>
Announcement of Acquisition	24 October 2019
Due diligence completion	24 October 2019
Dispatch Notice of Meeting seeking approval for the acquisition of the North Dakota Project	19 November 2019
General Meeting to approve the acquisition of the North Dakota Project	19 December 2019
Completion of consolidation	20 December 2019
Lodgment of prospectus with ASIC	20 December 2019
Closing date of offer under the prospectus	21 February 2020
Payment of cash consideration and issue of consideration securities for acquisition of North Dakota Project	28 February 2020
Despatch of holding statements	28 February 2020
Re-quotation of securities on ASX (subject to HOG re-complying with Chapters 1 and 2 of the ASX Listing Rules and subject to ASX agreeing to reinstate HOG's securities to quotation)	Week commencing 8 March 2020

*The above table is an indication only and is subject to change. Shareholders should also note that if shareholder approval of the acquisitions is obtained, the Company's securities will remain suspended until such time as the Company has satisfied Chapters 1 and 2 of the ASX Listing Rules.*

## Key terms of the SPA

Under the terms of the SPA, the Company will pay US\$1,256,410 in cash and issue 61,815,367 shares at 3 cents per share (on a post-Consolidation basis) to the Vendors ("**Consideration Shares**") in consideration for the Acquisition.

Completion under the SPA is subject to a number of conditions precedent including:

- the Company undertaking the Consolidation and the Capital Raising;
- the Company obtaining all necessary shareholder and regulatory approvals required to give effect to the Acquisition, including the issue of the shares under the Capital Raising and the issue of the Consideration Shares;
- execution by Vendors (and/or their nominees) of restriction agreements if required by ASX with respect to the Consideration Shares;
- the Company receiving conditional approval from ASX for the reinstatement of its securities to official quotation and the Company and Vendors being satisfied (acting reasonably) that such conditions can be met; and
- The Company entering into a Transition and Contract Services operator agreement.

## Re-compliance with Chapters 1 and 2 of the Listing Rules

The Acquisition will amount to a significant change in the nature and scale of the Company's activities, and the Company is required to obtain the approval of its shareholders for the Acquisition and re-comply with Chapters 1 and 2 of the Listing Rules.

The Company's securities will remain suspended from official quotation on ASX until the Company recomplies with Chapters 1 and 2 of the Listing Rules. Whilst the Company will use its best endeavours to satisfy ASX requirements, it should be noted that readmission to trading remains at the absolute discretion of ASX.

## Shareholder Approvals

A notice of meeting seeking shareholder approval for the resolutions required to give effect to the Acquisition will be sent to shareholders in due course. Resolutions will include approval for:

- the Consolidation;
- the change in nature and scale of the Company's activities;
- the issue of the Consideration Shares;
- the issue of the shares as part of the Public Offer;
- appointment of new directors; and
- conversion rights for the Interim Funding convertible notes.

The Company has received a waiver from ASX with respect to Listing Rule 2.1 condition 2 to enable the Company to issue shares under the Public Offer at a price that is less than \$0.20.

Tom Fontaine commented: "This is an excellent project to build a company from. It is conventional oil production, from a proven area, with low risk up-side potential. We have a strategy to increase oil production rates in the first half of 2020 by recompleting some of the existing wells, and drilling at



least one new well. This is a strategy that has already proven to work in this area. We are also actively reviewing additional projects for growth opportunities.”

The Company looks forward to providing further details on the proposed Acquisition and recapitalisation in due course.

**For more information, please contact:**

**Tom Fontaine**

Managing Director

Hawkley Oil & Gas Limited

Ph: 08 9226 3211

[www.hawkleyoilandgas.com](http://www.hawkleyoilandgas.com)

[information@hawkleyoilandgas.com](mailto:information@hawkleyoilandgas.com)

**Important Notice**

Some of the statements appearing in this announcement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which Hawkley operates and proposes to operate as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets, among other things. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. No forward looking statement is a guarantee or representation as to future performance or any other future matters, which will be influenced by a number of factors and subject to various uncertainties and contingencies, many of which will be outside Hawkley's control.

Hawkley does not undertake any obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions or conclusions contained in this announcement. To the maximum extent permitted by law, none of Hawkley, its directors, employees, advisors or agents, nor any other person, accepts any liability for any loss arising from the use of the information contained in this announcement. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this announcement reflect views held only as at the date of this announcement.

This statement is not an offer, invitation or recommendation to subscribe for, or purchase securities by Hawkley. Nor does this announcement constitute investment or financial product advice (nor tax, accounting or legal advice) and is not intended to be used for the basis of making an investment decision. Investors should obtain their own advice before making any investment decision. By reviewing or retaining this announcement, you acknowledge and represent that you have read, understood and accepted the terms of this important notice.

**Appendix 1 – Vendors (total interest 35%\*)**

Radian Partnership Limited Partnership (USA) – 10%

GCC Thurston Energy Limited Partnership (Canada) – 3.125%

Natural Resource Advisors LLC (USA) - 3.125%

Ralph Curton Jr – (Individually held) (USA) - 3.125%

Thurston Energy Investments 2 LLC (USA) – 12.5%

VP5 LLC (USA) - 3.125%

\* *These percentage holdings refer to the vendors' interests in a June 2017 farmout agreement in relation to a total working interest of approximately 93% of the Project. This represents approximately 33% of the overall Project*



## Appendix 2

### Hawkey Oil & Gas Limited

#### Proforma Balance Sheet

30-Sep-19

A\$/US\$

0.68

Note	Hawkey Reviewed 31-Dec 2018 \$	Subsequent Events Unaudited 30-Sep 2019 \$	Net Interim Funding and Recompliance \$	Proforma Adjustments Unaudited Minimum Subscription \$	Proforma Adjustments Unaudited Maximum Subscription \$	Proforma Unaudited Minimum Subscription	Proforma Unaudited Maximum Subscription
<b>ASSETS</b>							
CURRENT ASSETS							
Cash and cash equivalents	77,844	-71,641	200,000	2,852,338	4,732,338	3,058,541	4,938,541
Trade and other receivables	93	7,424				7,517	7,517
Other assets	19,594	1,176		3,695,324	3,695,324	3,716,094	3,716,094
<b>TOTAL CURRENT ASSETS</b>	<b>97,531</b>	<b>-63,041</b>	<b>200,000</b>	<b>6,547,662</b>	<b>8,427,662</b>	<b>6,782,152</b>	<b>8,662,152</b>
<b>TOTAL ASSETS</b>	<b>97,531</b>	<b>-63,041</b>	<b>200,000</b>	<b>6,547,662</b>	<b>8,427,662</b>	<b>6,782,152</b>	<b>8,662,152</b>
<b>LIABILITIES</b>							
CURRENT LIABILITIES							
Trade and other payables	175,266	89,680		0	0	264,946	264,946
Borrowings (interest bearing)	188,227	26,704		0	0	214,931	214,931
<b>TOTAL CURRENT LIABILITIES</b>	<b>363,493</b>	<b>116,385</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>479,878</b>	<b>479,878</b>
<b>TOTAL LIABILITIES</b>	<b>363,493</b>	<b>116,385</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>479,878</b>	<b>479,878</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>-265,962</b>	<b>-179,426</b>	<b>200,000</b>	<b>6,547,662</b>	<b>8,427,662</b>	<b>6,302,274</b>	<b>8,182,274</b>
<b>EQUITY</b>							
Issued capital	38,974,788	0	500,000	6,847,662	8,847,662	46,322,450	48,322,450
Reserves	4,058,055	14,958	0	0	0	4,073,013	4,073,013
Accumulated losses	-43,298,805	-194,384	-300,000	-300,000	-420,000	-44,093,189	-44,213,189
<b>TOTAL EQUITY</b>	<b>-\$265,962.00</b>	<b>-\$179,425.64</b>	<b>\$200,000.00</b>	<b>\$6,547,661.76</b>	<b>\$8,427,661.76</b>	<b>\$6,302,274.13</b>	<b>\$8,182,274.13</b>