

Hawkley Oil and Gas Limited

Consolidated Interim Financial Report

A.B.N. 68 115 712 162

For the Half-Year Ended 31 December 2016

Hawkley Oil and Gas Limited

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For the Half-Year Ended 31 December 2016

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Directors' Report

31 December 2016

Your directors submit their report, together with the interim financial statements of the Group, being Hawklely Oil and Gas Limited (the company) and its controlled entities (the Group) for the half year ended 31 December 2016.

Directors

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

Names	Position
Mr. David Lloyd	Non-Executive Chairman (appointed 16 March 2017)
Mr. Edmund Babington	Non-Executive Director (appointed 16 March 2017)
Mr. Bill Foster	Non-Executive Director
Mr. Glenn Featherby	Executive Chairman (resigned 16 March 2017)
Mr. Piers Lewis	Non-Executive Director (resigned 16 March 2017)
Mr. Murray Wylie	Non-Executive Director (resigned 16 March 2017)

Company Secretary

Mr. Murray Wylie

Operating results

The consolidated profit of the Group for the half year ended 31 December 2016 amounted to \$12,882,123 (31 December 2015: \$557,133 loss). The result includes profit from discontinued operations of \$13,036,443 (including accumulated foreign exchange gain of \$12,068,988 previously recognised in equity) following the divestment of the Company's Ukraine assets through the sale of Janita Global Limited on 11 November 2016.

Review of operations

SALE OF UKRAINE ASSETS

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, were unsuccessful. Since that time, Hawklely 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, the Company was unable to attract any investment monies for the Ukraine.

On 2 February 2016, Hawklely 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 meeting of shareholders held on 16 March 2016 approved the disposal of the Company's main undertaking in accordance with ASX Listing Rule 11.2.

An initial deposit of US\$100,000 was received in February 2016 however Tomeas experienced difficulty in obtaining the remaining US\$900,000 that was to be paid at completion. After failing to settle despite several extensions, Hawklely terminated the sale agreement on 11 August 2016 so that it could pursue discussions with other interested parties whilst allowing Tomeas to re-engage at such time as they are able to complete.

On 11 November 2016, the sale to Tomeas was finally completed with the additional US\$900,000 sale proceeds used primarily to clear the Company's unsecured loans (A\$598k), finalise its Ukraine obligations (US\$345k) and settle other creditor claims.

Directors' Report

31 December 2016

EVENTS SUBSEQUENT TO BALANCE DATE

On 16 March 2017, Hawley announced that it had entered into an agreement with EMCO Capital Pty Ltd ("EMCO") to undertake a share placement. Under the agreement, EMCO received 49,711,290 fully paid ordinary shares in Hawley at 0.4 cents per share, providing \$198,845 cash before costs to be used for working capital and to pursue new projects.

Under the terms of the agreement, Mr. David Lloyd and Mr. Edmund Babington have joined the Board of Hawley on 16 March 2017 as non-executive Chairman and non-executive director respectively. Mr. Glenn Featherby, Mr. Piers Lewis and Mr. Murray Wylie resigned from the board the same day. Mr. Bill Foster remains as a non-executive director and Mr. Wylie continues as Company Secretary.

EMCO is a private Australian company formed in 1996 to invest capital in private sector enterprises. Its principal is Mr. David Lloyd, based in Melbourne, who has substantial commercial experience in the private sector, establishing businesses in manufacturing, service and real estate. Mr. Lloyd has had commercial interests in the petroleum sector spanning 30 years and has developed a broad network of consultancy based resources primarily located in Texas, Colorado and Alberta. Through its network of technical and industry participants, Emco regularly reviews investment opportunities in the Oil & Gas industry, particularly in North America. Mr. Babington is a lawyer based in West Perth with extensive experience in the operation of public companies, resources law and corporate law. Mr Babington is also currently chairman of ASX listed potash explorer FYI Resources Ltd.

Subject to shareholder approval, EMCO will also receive 24,855,645 options (1 for 2) with an exercise price of 0.5 cents per share and expiring 31 January 2020. The agreement also provides for the issue of 500,000 advisor options to Mr. Edmund Babington or his nominee on the same terms.

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 2016 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 16 March 2017

Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 12 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 2016 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 16 March 2017

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 2016, 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
16 March 2017

Hawley Oil and Gas Limited

Consolidated Statement of Comprehensive Income For the Half Year Ended 31 December 2016

	31 December 2016 \$	31 December 2015 \$
Revenue	-	-
Other income	125	33
Administrative expenses	(159,561)	(232,581)
Gains/(loss) on foreign currency	5,116	(2,058)
Loss before income tax from continuing operations	(154,320)	(234,606)
Income tax benefit/(expense)	-	-
Loss after tax for the half year from continuing operations	(154,320)	(234,606)
Discontinued operation		
Profit/(loss) after tax for the discontinued operation	3 13,036,443	(322,527)
Profit/(loss) after tax for the half year	12,882,123	(557,133)
Other comprehensive income, net of income tax		
Items that will be reclassified to profit or loss when specific conditions are met		
Foreign exchange differences on translation of foreign operations	19,156	176,709
Foreign exchange differences transferred to profit and loss on disposal of foreign operations	(12,068,988)	-
Total comprehensive profit/(loss) for the half year	832,291	(380,424)
Profit/(loss) attributable to:		
Members of the parent entity	832,291	(380,424)
Total comprehensive profit/(loss) attributable to:		
Members of the parent entity	832,291	(380,424)
Earnings per share		
From continuing and discontinued operations:		
Basic loss per share (cents)	3.89	(0.19)
Diluted loss per share (cents)	3.89	(0.19)
From continuing operations:		
Basic loss per share (cents)	(0.04)	(0.08)
Diluted loss per share (cents)	(0.04)	(0.08)

The accompanying notes form part of these financial statements.

Hawkley Oil and Gas Limited

Consolidated Statement of Financial Position

As at 31 December 2016

	31 December 2016	30 June 2016
Note	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	35,156	238,809
Trade and other receivables	-	724
Other assets	6,512	3,893
TOTAL CURRENT ASSETS	41,668	243,426
NON-CURRENT ASSETS		
Plant and equipment	-	-
TOTAL NON-CURRENT ASSETS	-	-
TOTAL ASSETS	41,668	243,426
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	404,312	668,482
Loans	-	588,032
TOTAL CURRENT LIABILITIES	404,312	1,256,514
NON-CURRENT LIABILITIES		
Provisions	-	181,847
TOTAL NON-CURRENT LIABILITIES	-	181,847
TOTAL LIABILITIES	404,312	1,438,361
NET LIABILITIES	(362,644)	(1,194,935)
SHAREHOLDERS' DEFICIT		
Issued capital	4 38,478,325	38,478,325
Reserves	4,032,927	16,082,759
Accumulated losses	(42,873,896)	(55,756,019)
SHAREHOLDERS' DEFICIT	(362,644)	(1,194,935)

The accompanying notes form part of these financial statements.

Hawkley Oil and Gas Limited

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2016

31 December 2016

	Ordinary Shares	Accumulated losses	Foreign Currency Translation Reserve	Convertible Note Reserve	Share Based Payment Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2016	38,478,325	(55,756,019)	12,049,832	(687,907)	4,720,834	(1,194,935)
Profit attributable to members of the entity	-	12,882,123	-	-	-	12,882,123
Other comprehensive income	-	-	19,156	-	-	19,156
Exchange difference transferred to profit or loss on disposal of foreign operations	-	-	(12,068,988)	-	-	(12,068,988)
Balance at 31 December 2016	38,478,325	(42,873,896)	-	(687,907)	4,720,834	(362,644)

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)

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
For the Half-Year Ended 31 December 2016

	31 December 2016 \$	31 December 2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	-	99,162
Payments to suppliers and employees	(520,945)	(330,719)
Interest received	125	626
Net cash used in operating activities	<u>(520,820)</u>	<u>(230,931)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of foreign operations	3 922,621	-
Net cash used in investing activities	<u>922,621</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	-	237,450
Repayment of borrowings	(571,334)	-
Interest paid	(26,806)	-
Net cash provided by financing activities	<u>(598,140)</u>	<u>237,450</u>
Net increase (decrease) in cash and cash equivalents held	(196,339)	6,519
Cash and cash equivalents at beginning of year	238,809	109,815
Effects of exchange rate changes on cash and cash equivalents	(7,314)	1,031
Cash and cash equivalents at end of the half year	<u>35,156</u>	<u>117,365</u>

Notes to the Financial Statements

For the half-year ended 31 December 2016

1 Basis of preparation

This consolidated interim financial report for the half year ending 31 December 2016 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 2016, 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 2016 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 2016, the Group generated a loss from continuing operations of \$154,320. As at 31 December 2016, the Group has cash and cash equivalents of \$35,156 and net liabilities of \$362,644. Current liabilities of \$404,312 at 31 December 2016, includes \$391,188 in outstanding fees owed to current and former directors.

Following completion of the sale of its Ukraine assets in November 2016, and repayment of its external debt, Hawkley has been looking to pursue Oil & Gas acquisition and development opportunities in more politically stable countries. The Group needs to source working capital in order to pursue its objectives and 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 and former directors having resolved not to seek repayment of monies owed or owing to them, forecasted to total \$503,688 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 16 March 2017, the Group completed a share placement to EMCO raising \$198,845 before costs. The agreement included board changes and plans for further financing measures to enable the Company to pursue Oil & Gas acquisition and development opportunities in more politically stable countries outside of Eastern Europe.

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.

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.

Notes to the Financial Statements
For the half-year ended 31 December 2016

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 Australia.

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

3 Discontinued operation

On 11 November 2016, the Company announced that it had completed the sale of its Ukraine assets through the sale of its wholly owned subsidiary, Janita Global Limited, to Tomeas Assets Limited for total consideration of US\$1,000,000. The results for Janita Global Limited and its wholly owned subsidiary, Prime Gas LLC, are presented below:

	Period ended 11 November 2016 \$	Half-year ended 31 December 2015 \$
<i>Plant and equipment</i>		
Revenue	-	521
Other income	337	72,503
Administrative expenses	(354,510)	(230,570)
Gains/(loss) on foreign currency	1,562	(164,981)
Gain on sale of Janita Global Holdings Limited	13,389,054	-
	<hr/>	<hr/>
Profit/(loss) before tax from a discontinued operation	13,036,443	(322,527)
Income tax	-	-
	<hr/>	<hr/>
Profit/(loss) from a discontinued operation	13,036,443	(322,527)
Earnings/(loss) per share		
From discontinued operations:		
Basic loss per share (cents)	3.93	(0.11)
Diluted loss per share (cents)	3.93	(0.11)
The net cash flows of the discontinued operation are as follows:		
Operating	(130,430)	(74,974)
Net cash outflow	<hr/>	<hr/>
	(130,430)	(74,974)

Notes to the Financial Statements
For the half-year ended 31 December 2016

3 Discontinued operation (continued)

The major classes of assets and liabilities of Janita Global Limited group at the time of disposal are as follows:

	11 November 2016
Cash and cash equivalents	131,467
Trade and other receivables	1,995
	<hr/>
Total assets disposed of	133,462
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Trade and other payables	(358,424)
Provisions	(172,483)
	<hr/>
Total liabilities disposed of	(530,907)
	<hr/>
Net liabilities disposed of	(397,445)
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Consideration received on sale of foreign operations ⁽ⁱ⁾	922,621
	<hr/>
Foreign exchange differences transferred to profit and loss on disposal of foreign operations	12,068,988
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Gain on disposal	13,389,054
	<hr/>

- (i) Excludes US\$100,000 deposit received in previous financial year and US\$200,000 liabilities of Hawkley that were assumed by the purchaser and included in trade and other payables disposed.

Notes to the Financial Statements

For the half-year ended 31 December 2016

4 Issued capital

	31 December 2016	30 June 2016
	\$	\$
331,408,627 (30 June 2016: 331,408,627) Share capital - Ordinary	42,550,658	42,550,658
Share issue costs	(4,072,333)	(4,072,333)
Total	38,478,325	38,478,325

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 \$10,560 (31 December 2015: \$9,900) were made to the entity.

In April 2015, the Company was loaned \$100,000 by a related party of V Dmitriyev, who is a major shareholder of Hawley. The loan incurred interest at 4.5% and was repaid during the reporting period.

6 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 December 2016 (30 June 2016: nil).

7 Events occurring after the reporting date

On 16 March 2017, Hawley announced that it had entered into an agreement with EMCO Capital Pty Ltd ("EMCO") to undertake a share placement. Under the agreement, EMCO received 49,711,290 fully paid ordinary shares in Hawley at 0.4 cents per share, providing \$198,845 cash before costs to be used for working capital and to pursue new projects.

Under the terms of the agreement, Mr. David Lloyd and Mr. Edmund Babington have joined the Board of Hawley on 16 March 2017 as non-executive Chairman and non-executive director respectively. Mr. Glenn Featherby, Mr. Piers Lewis and Mr. Murray Wylie resigned from the board the same day. Mr. Bill Foster remains as a non-executive director and Mr. Wylie continues as Company Secretary.

EMCO is a private Australian company formed in 1996 to invest capital in private sector enterprises. Its principal is Mr. David Lloyd, based in Melbourne, who has substantial commercial experience in the private sector, establishing businesses in manufacturing, service and real estate. Mr. Lloyd has had commercial interests in the petroleum sector spanning 30 years and has developed a broad network of consultancy based resources primarily located in Texas, Colorado and Alberta. Through its network of technical and industry participants, Emco regularly reviews investment opportunities in the Oil & Gas industry, particularly in North America. Mr. Babington is a lawyer based in West Perth with extensive experience in the operation of public companies, resources law and corporate law. Mr Babington is also currently chairman of ASX listed potash explorer FYI Resources Ltd.

Subject to shareholder approval, EMCO will also receive 24,855,645 options (1 for 2) with an exercise price of 0.5 cents per share and expiring 31 January 2020. The agreement also provides for the issue of 500,000 advisor options to Mr. Edmund Babington or his nominee on the same terms.

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.

To the members of Hawkley Oil and Gas Limited

Report on the half-year financial report

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 2016, 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 half-year 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 2016 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.

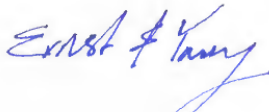
Conclusion

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 2016 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*.

Material uncertainty related to going concern

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



D A Hall
Partner
Perth
16 March 2017