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Sorochynska Licence: B18 Reserves Summary

Hawkley Oil & Gas is pleased to provide a summary of the Competent Persons detailed assessment of reserves in the Upper B18 Sandstone within the producing field in Hawkley's Sorochynska Licence, Ukraine.

1P, 2P and 3P reserves were announced in October 2011, and have been slightly revised in the final report by the incorporation of production data to 1st January 2012. In addition, the report includes geological maps, engineering data and the economic valuation.

- Material balance methods suggest that the ultimate recovery from the Sorochynska-201 well could be as much as 13bcf plus condensate;
- The calculated reservoir volume in the B18b of the East Block structure is approximately 60 million cubic metres, which equates to a gas in place of 80bcf at 3P level;
- The 3P recovery is estimated to be 56bcf, of which 51bcf remain to be produced;
- An additional four wells could drain the known reserves;
- It is possible that the gas accumulation extends further north than the lowest (currently) known level of gas, which would increase the reserves upside beyond the current 3P estimate. An additional well would be required to test this possibility;
- Expenditure estimates and production forecasts, together with constant price and tax assumptions, indicate that the discounted net present value of the remaining reserves ranges from US$41 million for the Sorochynska-201 well alone, to US$219 million at 3P level (5 wells).

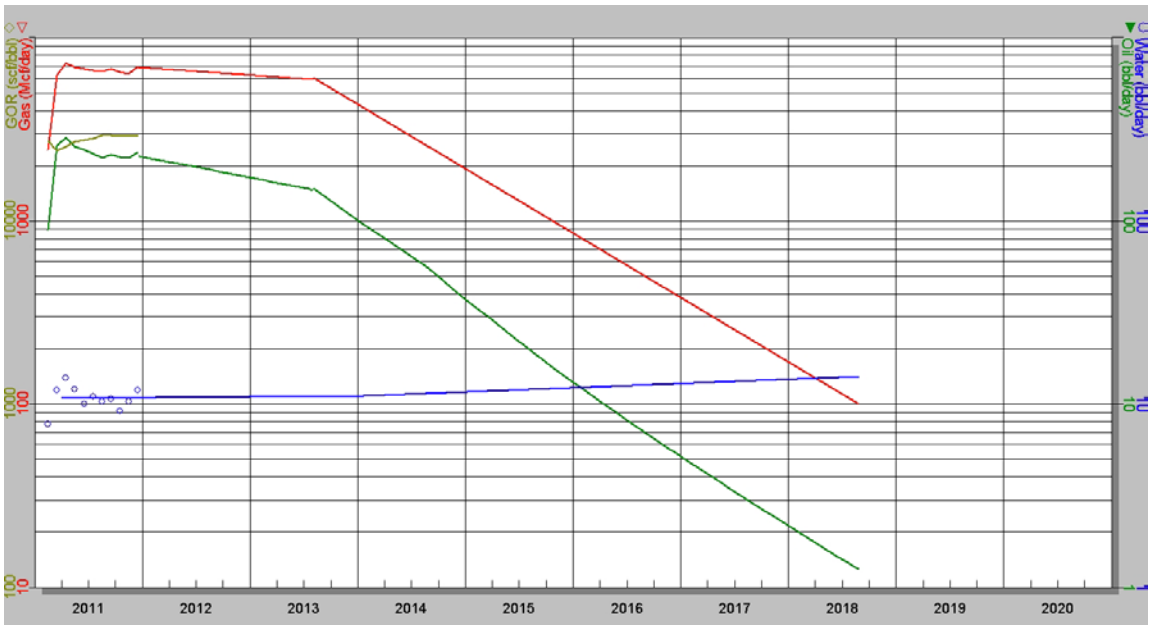
Sorochynska-201

Hawkley put Sorochynska-201 on production in February 2011, just three months after establishing the commerciality of this, its first well. The well encountered 11 metres of high quality reservoir in the upper sandstone of the B18 stratigraphic interval. Porosity averages almost 15% and the water saturation is low at 20%; measured permeability is a respectable 43 milliDarcies.

To date, the well has produced 2.1bcf of gas and 160,000bbls of condensate. Production was established at more than 7MMcf/d and 300bbl/d and the well is currently producing at 6.7MMscf/day and 230bbls/day.

Pending the tie-in of the next production well, expected in Q3-Q4 2012, Hawkley is attempting to sustain the level of production by increasing the choke size at frequent intervals. Analysis of the production history by the Competent Person indicates that the well should continue to produce until 2018.

Figure 1: Sorochynska-201 Well Production Forecast
Red line (upper)is gas and green line (middle) is condensate production



Field Reserves

Pressure data and production data are available for the Upper B18 reservoir in Sorochynska-201 and nearby wells#110 and #469 that were drilled in the Soviet era. Analysis of the data suggests that the reservoir in Sorochynska-201 and well #110 are in partial communication, but that there is no communication with well #469. Well #469 drained a separate 'tank' of gas, therefore, possibly because a fault separates it from the 201-110 'tank'.

Computer modelling of the data indicates that the tank (pool) containing the 201-110 gas accumulation contained 80bcf of gas initially in place before any production. The Competent Person considers that the 80bcf is the proven + probable + possible (3P) gas in place.

Using the analysis, Moyes and Co considers that an additional four wells are required to drain the estimated 3P reserves in the 201-110 pool. Total recovery to shut-in pressure would be 56bcf and therefore a recovery factor of 67%.

Figure 2: Reserves Estimates

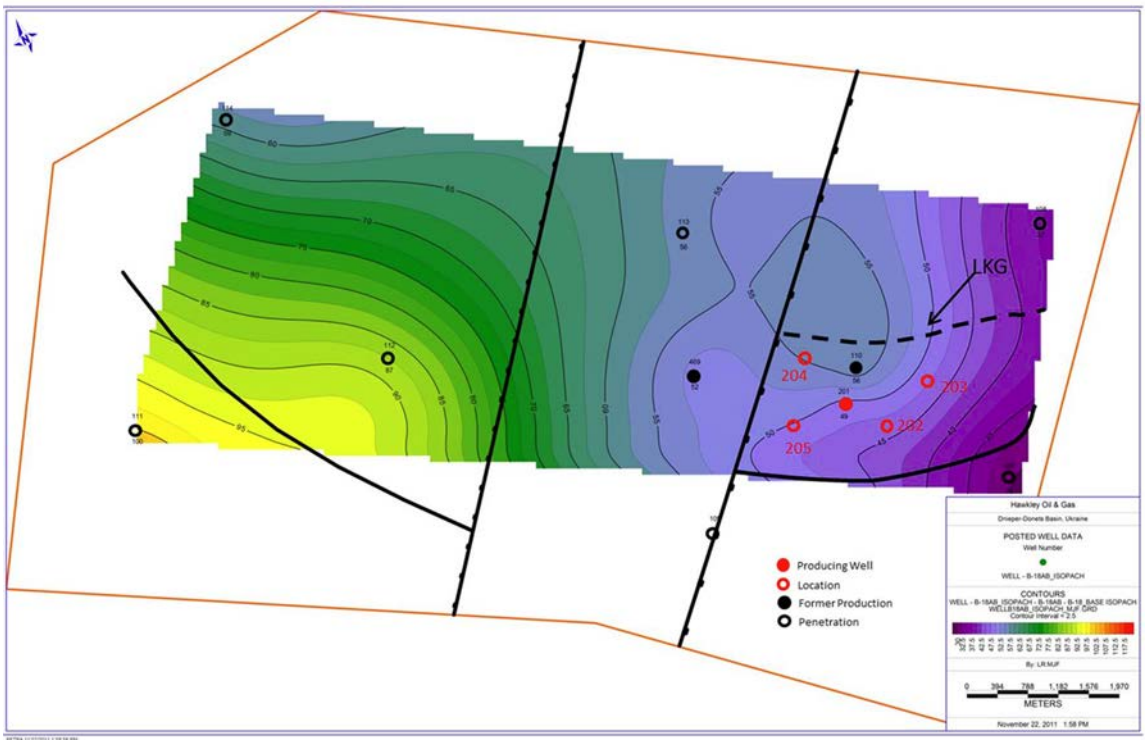
Sorochynska Field B-18 Reservoir Reserve Summary as of 1 January 2012		
	Gas MMCF	Condensate MBO
Proved Developed Proproducing	6,288	160
Proved Undeveloped	16,807	459
Total Proved	**23,095**	**619**
Probable	**17,802**	**347**
Possible	**10,013**	**254**
Total 2P	**40,897**	**966**
Total 3P	**50,910**	**1,220**
Cumulative Production (201 Well)	2,115	76
Cumulative Production (110 Well)	3,080	132
1P Ultimate Recovery	28,290	827
2P Ultimate Recovery	46,092	1,174
3P Ultimate Recovery	56,105	1,428

Figure 2 opposite shows the split of reserves. Proved Developed Producing is the Sorochynska-201 well, with 6.3bcf of reserves remaining after production of 2.1bcf to date. Ultimate recoverable from the pool is shown as 56bcf, with 51bcf remaining to produce.

Field Development

As stated above, the Upper B18 field will require four additional wells to drain the 3P reserves. However, the Competent Person considers it likely by that the productive portion of the reservoir extends below the known level of gas, which is indicated on Figure 3 as a line labeled LKG, and this potential has not been included in the reserve calculations. A fifth or even sixth well would be required to discover and delineate this potential.

Figure 3: B18 Structure Map showing suggested locations for future development wells
LKG is Lowest Known Gas. There is potential for additional reserves to be discovered north of LKG



Gas from the Sorochynska-201 well is currently delivered to a privately-owned processing plant located approximately 30km to the east, via a 9km long 4-inch pipeline constructed by Hawkley that connects with a pipeline going to the plant. The existing arrangement can accommodate a second well and a

production volume of up to 14MMcf/day. Full-field development, therefore, will require a new processing plant, as well as compression facilities and connection to the main transmission pipeline.

The following two figures illustrate the forecast production profile and proposed development schedule.

Figure 4: Full-Field Production Forecast

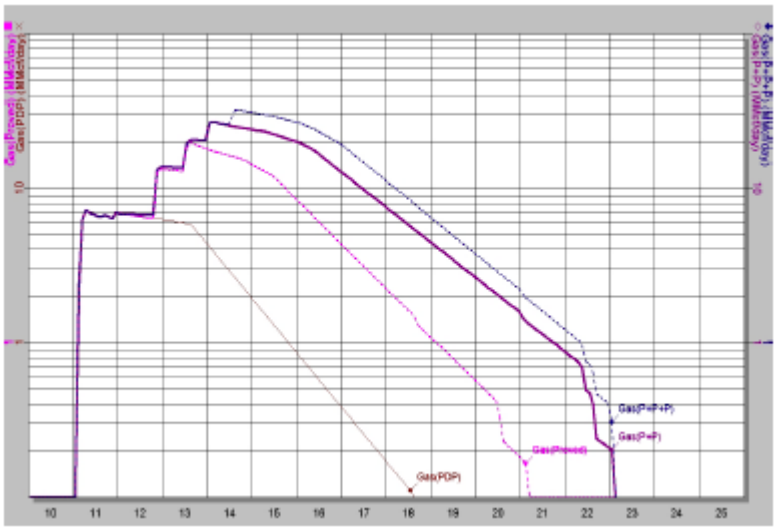
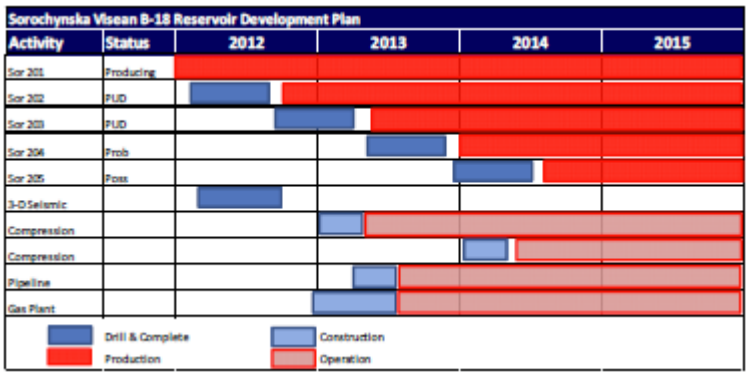


Figure 4 opposite shows that the field is expected to produce up to 30MMcf/day of gas when all five wells are in production. Proven (1P) reserves sustain production until 2021, and the field continues to produce to 2023 if the 3P reserves are developed.

Figure 5: Field Development Schedule



A key assumption is that the infill drilling is accomplished with a single rig drilling in sequential order. As the wellhead pressure declines with production, compression will be required to start in 2013 to maintain deliverability. Moyes & Co estimate total capital costs of US$57 million for the programme shown opposite.

Economic Valuation

Key assumptions built into the economic valuation include constant operating costs and capital costs, a constant gas price net of state royalties, and a constant exchange rate of 8 Hryvnia to 1 US$, a rate that is the average realised in 2011. Condensate prices were linked to ICE Brent Crude modified by a US$1.59 premium for Urals crude, then discounted by 22.26%. State royalties changed several times in 2011 and are difficult to forecast, and therefore maintaining a constant price minimises the probability that the forecast will be incorrect. Finally, a discount rate of 10% was used to generate present values.
The outcome of the valuation is a discounted net present value (NVP_{10}) ranging from US$41 million for the proved developed producing reserves of Sorochynska-201, to US$219 million for the proved + probable + possible reserves (i.e. 3P). The values are before income tax.

CEO's Comments

Chief Executive Officer, Dr Michael Earle, said "Hawkley's appraisal-led strategy and the decision to drill Sorochynska-201 resulted in a three-fold increase in proven and probable reserves, and production that generates enough revenue to make the company profitable. Further development of the field will see the drilling of at least four additional wells and a plateau of 30 million cubic feet a day of gas in 2014, more than 4x the current volume and expected revenue.

The economics of the field are robust, even on a single well. In 2012 Hawkley will be seeking ways to enhance the value of the asset by drilling for reserves in other reservoirs in the vicinity of the existing field and elsewhere in the licence area."

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About Hawkley

Hawkley is an upstream company focused on the exploitation of undeveloped discoveries made in the Dneiper-Donets Basin in Ukraine. The Company owns 100 per cent of two exploration licences that include the right to pilot production of hydrocarbons.

In 2010, the Company drilled its first well in the Sorochynska licence. Sorochynska-201 was a successful well and was put into production in February 2011. Hawkley intends to build its own gas handling plant in 2012 to enable production to be ramped up for additional production of gas and condensate at its Sorochynska Licence. Incremental production could come from additional development wells on the Sorochynska Field as well as new reserves related to exploration and appraisal drilling. The company is presently engaged in drilling in its Chernetksa Licence.

COMPETENT PERSONS STATEMENT

The hydrocarbon reserves estimates of Sorochynska are based on information compiled by P. Dee Patterson, BS, MBA. Mr Patterson is a registered Professional Engineer with 30 years of relevant experience and is qualified in accordance with ASX Listing Rule 5.11. Mr Patterson is a Managing Director of Moyes and Co Inc. and has consented to the inclusion of the information in the form and context in which it appears.