Hawkley Oil and Gas Limited and its Controlled Entities
(Formerly Incitive Limited and its Controlled Entities)

ABN: 68 115 712 162

Financial Report
30 June 2010

HAWKLEY OIL AND GAS LIMITED
Contents

Directors

Mr Paul Morgan (Non Executive Chairman)
Mr Richard Reavley (Chief Executive Officer and Executive Director)
Mr David Riekie (Non Executive Director)

Company Secretary

Mr Ian Hobson

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Auditors

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National Australia Bank
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Solicitors

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Stock Exchange

Hawkley Oil and Gas Limited
ASX code - HOG

Your Directors submit their report on Hawkley Oil and Gas Limited (the Company) and the entities it controlled (the Group) at, or during, the six months ended 30 June 2010.

DIRECTORS

The names of the Company's Directors in office during the period and until the date of this report are as below. The Directors were in office for the entire period unless otherwise stated.

Mr Paul Morgan (appointed 22 June 2010)
Mr Richard Reavley (appointed 22 June 2010)
Mr David Riekie (appointed 22 June 2010)
Mr Mel Bridges (resigned 22 June 2010)
Mr Winton Willesee (resigned 22 June 2010)
Mr Eric de Mori (resigned 22 June 2010)

Mr Paul Morgan
Non Executive Chairman

Mr Morgan has 35 years public company experience and is a qualified geologist with over 30 years experience in developing countries. Mr Morgan spent 14 years with Chevron Oil Company and was a former member of the Advisory Board of Resource Capital Finance. Mr Morgan was the founding Director of Gabriel Resources Ltd and former Executive Chairman of Canadian listed Goldbelt Resources Ltd. Mr Morgan's Ukrainian experience comes from being the former Chairman and Chief Executive Officer of AIM listed Regal Petroleum Ltd.

Mr Richard Reavley
Chief Executive Officer and Executive Director

Mr Reavley has over 10 years experience working in London's financial sector and the natural resource industry. A founding member of Janita Global Limited, Mr Reavley has been its managing director since January 2007. Mr Reavley has relevant experience managing oil and gas assets in Europe and Central Asia. He has public company experience as a former director of Goldbelt Resources Ltd, a TSX listed company. Mr Reavley has a BSc in Chemistry from the University of Kent and an MBA (Finance) from London Business School.

Mr David Riekie
Non Executive Directors

Mr Riekie has more than 14 years experience as an Executive Director of a boutique corporate advisory company. During this period Mr Riekie held a variety of non executive board positions, either as Non Executive Chairman or Non Executive Director for ASX listed companies in both the resource and industrial sectors. Mr Riekie has experience in the resource sector at the exploration, pre-production and production level for oil and gas, precious and base metals and mineral sands both within Australia and overseas. Mr Riekie is a Chartered Accountant, a Member of the Institute of Company Directors and holds a Bachelor of Economics and a Diploma of Accounting.

COMPANY SECRETARY

Mr Ian Hobson (appointed 22 June 2010)

Mr Hobson holds a bachelor of business degree and is a Chartered Accountant and Chartered Secretary. Mr Hobson provides company secretary services and corporate, management and accounting advice to a number of listed public companies involved in the resource, technology and retail industries.

INTERESTS IN SHARES AND OPTIONS

As at the date of this report, the interests of the Directors in the shares and options of the Company were:

Directors	Ordinary shares	Performance shares	Options
Mr P Morgan	18,365,420	5,155,399	-
Mr R Reavley	10,182,711	2,577,699	-
Mr D Riekie	-	-	-

DIVIDENDS

No dividend has been paid or recommended by the directors since the commencement of the financial year.

PRINCIPAL ACTIVITIES

The principal activity during the period were;

- Prior to 22 June 2010, research and development in the field of immunology; and
- Post 22 June 2010, oil and gas exploration.

OPERATING AND FINANCIAL REVIEW

The 2010 period has been a pivotal one for the Company with the decision to change its focus from immunology research and development to oil and gas exploration in the Ukraine. The Company changed its name from Incitive Limited to Hawkley Oil and Gas Limited, ASX code: HOG.

$5.5 million in capital was raised during the period via the issue of 27,500,000 shares at an issue price of $0.20.

The Group reported a net loss of $6.0 million, largely due to the cost of the merger and getting reinstated to the Australian Securities Exchange and impairing assets and goodwill that arose on the merger between Janita Global Limited and Hawkley Oil and Gas Limited.

Company Background – General

The Company previously operated solely as an immunology research and development company though its subsidiary, Sarantis Pty Ltd. The Company specialises in the development of compounds from Bromelain to treat a range of inflammatory and gastrointestinal diseases.

Sarantis' asset portfolio consists of four patents. Two key patents, ICV0019 and ICV0026 have been granted in Europe and China. The ICV0019 patent is also pending in the US and Japan, while the ICV0026 patent is pending in Japan. The other two patents in the portfolio are granted in the USA and cover treatments of various diseases by stem bromelain, and the treatment of diarrhoea.

ICV0019 is the Company's lead compound being developed as a new drug to treat inflammation and autoimmune disease. Since its formation, the Company has shown considerable progress in validating ICV0019 as a drug candidate by completing most stages of the pre-clinical development plan including efficacy, manufacturing, preliminary toxicology and safety.

As announced to the ASX on 18 February 2010, the Company has changed the focus of its activities to oil and gas exploration and production. This change of focus is as a consequence of a review of the Company's life science/biotechnology business, which resulted in the Board forming the view that it was necessary to expand its business beyond the biotechnology sector.

The Company reached an agreement to merge with Janita Global Limited (Janita), an oil and gas company, with assets in the Dnieper-Donets Basin in the Ukraine. The merger was treated as a reverse acquisition by Janita of the Company which results in Janita being the in substance acquirer. Legally, the Company is the owner of 100% of the issued share capital of Janita Global Limited who in turn owns 100% of the shares in its Ukrainian subsidiary company, Prime Gas LLC.

OPERATING AND FINANCIAL REVIEW (continued)

At a general meeting held on 12 April 2010, Shareholders approved the merger and the change in nature and scale of the Company's activities as a result of the merger. Shareholders also approved the change of the Company's name from "Incitive Limited" to "Hawkley Oil and Gas Limited".

Operating Results for the Financial Year

The result of the Company for the period ended 30 June 2010 was a loss of $3,270,263 (30 June 2009: $1,198,865). The consolidated loss for the six months ended 30 June 2010 was $6,008,551 (twelve months ended 31 Dec 2009: $3,091,666).

ENVIRONMENTAL REGULATION

The Directors are mindful of the regulatory regime in relation to the impact of the operational activities on the environment.

There have been no known breaches by the Group during the financial period.

SHARE OPTIONS

Unissued Shares

At the date of this report there were 3,749,531 unissued ordinary shares of the Company contracted to be issued and 28,363,336 ordinary shares under option either on issue or contracted to be issued. See below for details on those unissued shares not yet granted.

Options Granted

26,006,749 options are contracted to be issued to Cygnet Capital Pty Ltd as pursuant to the Underwriting Arrangement but as of the date of this report have not been issued but were granted for accounting purposes. Subsequent to year-end no further options have been granted.

Shares Issued on Exercise of Options

No shares have been issued on exercise of options since the beginning of the period.

SIGNIFICANT CHANGE IN STATE OF AFFAIRS

Refer Operating and Financial Review.

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the Directors are not aware of any matters or circumstances not otherwise dealt with in this report or consolidated financial statements that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the Company has agreed to indemnify all Directors and Executive Officers of the Company, against liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors or Officers of the Company, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company has paid premiums of $11,585.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the operations of the consolidated group and the expected results of those operations in future financial years have note been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the consolidated group.

REMUNERATION REPORT (Audited)

The remuneration report is set out under the following main headings:
A. Remuneration policy
B. Details of remuneration
C. Service contracts
D. Share-based payment compensation

A. Remuneration Policy

Remuneration Philosophy

The performance of the Group depends upon the quality of its Directors and other key management personnel.

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Remuneration Committee

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Executive Directors and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments (including option allocations) of such Officers on a periodic basis by reference to the relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and key management team.

Executive Remuneration Structure

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of Executive Directors' and Officers' emoluments (including option allocations) to the Group's financial and operational performance. All Directors and other key management personnel will have the opportunity to qualify for participation in the Employee Share Option Plan.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of Company-wide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Senior executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and additional superannuation, which is provided by salary sacrifice. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

Variable Remuneration – Long Term Incentive (LTI)

The LTI plan aims to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. There are no performance criteria for the grant of options, which are granted at the discretion of the Board.

As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance. LTI grants to executives are delivered in the form of options.

Usually options issued under the employee share option plan, including executive options, generally have a one to two year vesting period. If an executive ceases employment with the Group prior to the options vesting, then those options are forfeited. Vested options are forfeited if they are not exercised within one month upon an executive ceasing employment with the Group, or six months in special circumstances as deemed appropriate by Board of Directors.

REMUNERATION REPORT (Audited) (Continued)
Executive Remuneration Structure (Continued)

Options are granted under the plan for no consideration. They also carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in Hawkley Oil and Gas Limited.

The plan rules do not contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. However, the Directors, at their discretion imposed such a restriction. Consequently plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

During the previous financial year options were granted as equity compensation benefits by either shareholder approval or under the Employee Share Option Plan (ESOP) to certain Directors and key management personnel as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity. For further details of the options issued pursuant to the ESOP including the terms and conditions including the service criteria that must be met refer to note 22 to the financial statements.

To date, options over shares have been issued to directors and executives as part of their remuneration packages and have been subject to shareholder's approval. There are no performance hurdles attaching to the options granted other than service vesting conditions.

Packages are tailored to individual employees in order to provide maximum encouragement to perform for the benefit of shareholders and are designed to reflect labour demands. The aim of individual remuneration packages is to provide a balance between the immediate and long-term goals of the Group.

Non-executive Director Remuneration

The Board seeks to aggregate remuneration at a level which provides the Group the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Non-executive Director remuneration is determined within the aggregate Directors fee pool, which is currently set at $200,000 and is periodically recommended for approval by shareholders.

Each Director receives a fixed fee for being a Director of the Company. No additional fees are paid for Board committee membership. Should a Director be requested by the Chairman to undertake review work additional to normal Board and Board committee work, the Director receives additional fees based on commercial hourly rates. However, the additional fees will not result in the aggregate amount of Directors' fees approved by shareholders being exceeded.

Remuneration, Company Performance and Shareholder Wealth

The development of remuneration policies and structures are considered in relation to the effect on Group performance and shareholder wealth. They are designed by the Board to align Director and executive behaviours with improving Group performance and, ultimately, shareholder wealth.

Until recently, the Group's the principal objective has been to build shareholder wealth by advancing early stage research and development of drugs in the field of immunology. Looking forward, the Group aims to advance shareholder wealth through the successful production of oil and gas assets. The table below sets out the Company's share price at the end of each of the last four financial years since incorporation, together with the Earnings for the same period.

Financial year ended	Closing Share Price (cents)	Earnings (Company)
30 June 2007	10 cents	(1,024,264)
30 June 2008	5 cents	(2,251,942)
30 June 2009	0.7 cents	(1,198,865)
30 June 2010	15.5 cents	(3,270,263)

REMUNERATION REPORT (Audited) (Continued)
B. Details of Remuneration

COMPANY - HAWKLEY	**Short term Employee Benefits**	**Post Employ-ment Benefits**	**Share-based Payments**		**Termination payments**	**Total**	**Proportion Performance Based**
	Cash Salary & Fees	Super-annuation	Options	Shares			
12 months ended 30 June 2010	*$*	*$*	*$*	*$*	*$*	*$*	*%*
Directors							
Mr P Morgan – Non Executive Chairman (1)	-	-	-	-	-	-	-
Mr R Reavley – Executive Director & CEO(1)	-	-	-	-	-	-	-
Mr D Riekie –Non Executive Director(1)	-	-	-	-	-	-	-
Mr M Bridges – Executive Chairman (2)	66,000	-	-	-	-	66,000	-
Mr W Willesee – Non Executive Director(2)	105,000	-	-	-	30,000	135,000	-
Mr E de Mori – Non Executive Director(2)	18,747	-	-	-	-	18,747	-
	189,747	-	-	-	30,000	219,747	-
Other Key Management Personnel							
Mr I Hobson – Company Secretary(1)	-	-	-	-	-	-	-
Mr R Brown – Company Secretary(2)	-	-	-	-	-	-	-
Dr T Mynott – Chief Scientific Officer	15,500	-	-	-	-	15,500	-
	15,500	-	-	-	-	15,500	-
	205,247	**-**	**-**	**-**	**30,000**	**235,247**	

(1) - Appointed 22 June 2010
(2) - Resigned 22 June 2010

COMPANY - HAWKLEY	**Short Term Employee Benefits**	**Post Employment Benefits**	**Share-based Payments**		**Total**	**Percentage of Remuneration as Options**	**Proportion Performance Based**
	Cash Salary & Fees	Super-annuation	Options	Shares			
12 months ended 30 June 2009	*$*	*$*	*$*	*$*	*$*	*%*	*%*
Directors							
Mr M Bridges – Executive Chairman	73,250	-	44,000	-	117,250	37.5	-
Mr W Willesee – Company Secretary	39,500	-	-	87,500	127,000	-	-
Mr E de Mori – Non-executive Director	10,415	-	44,000	-	54,415	80.7	-
Dr J Wright – Non-executive Director	10,000	-	350	-	10,350	3.4	-
Dr T Ramsdale – Non-executive Director	10,000	900	350	-	11,250	3.1	-
Mr D Home – Chief Executive Officer	140,954	11,035	7,563	35,000*	194,552	3.9	-
	284,119	11,935	96,263	122,500	514,817	18.7	**-**
Other Key Management Personnel							
Mr R Brown – Company Secretary	96,880	-	-	-	96,880	-	-
Dr T Mynott – Chief Scientific Officer	146,821	8,663	3,507	28,875**	187,866	1.9	-
	243,701	8,663	3,507	28,875	284,746	1.2	
	527,820	**20,598**	**99,770**	**151,375**	**799,563**	12.5	

* Included in this amount are termination benefits of $35,000 which represent 5,000,000 ordinary shares valued at the date of grant (being the EGM on 2 June 2009) at a market price of 0.7 cents per share.
** Included in this amount are termination benefits of $28,875 which represent 4,125,000 ordinary shares valued at the date of grant (being the EGM on 2 June 2009) at a market price of 0.7 cents per share.

REMUNERATION REPORT (Audited) (Continued)

B. Details of Remuneration (Continued)

CONSOLIDATED

The key management personnel of the Group, representing the ongoing business of Janita, for the 12 months ended 31 December 2009 did not receive any remuneration during that period. They were as follows:

- Ian Smith – Director (Janita)
- Ruma Kissoondharry – Director (Janita)

The key management personnel of the Group for the 6 months ended 30 June 2010 did not receive any remuneration from the group during the period. They were as follows:

- Ian Smith (resigned 4 May 2010) – Director (Janita)
- Ruma Kissoondharry (resigned 4 May 2010) – Director (Janita)
- Philip Caldwell (appointed 4 May 2010) – Director (Janita)
- Claude Bunier (appointed 4 May 2010) – Director (Janita)
- Kin-Chiu Tang (appointed 4 May 2010) – Director (Janita)
- Paul Morgan (appointed 22 June 2010) – Director (HOG)
- Richard Reavley (appointed 22 June 2010) – Director (HOG)
- David Riekie (appointed 22 June 2010) – Director (HOG)
- Ian Hobson (appointed 22 June 2010) – Company Secretary (HOG)

C. Service Contracts

The Group has entered into an executive services contract with Mr Reavley under which he is to provide Chief Executive Officers services.

- Term of Agreement – 22 June 2010 on going
- Fees:
  - USD $200,000 per year;
  - Reimbursement for up to $20,000 of all reasonable expenses incurred in relocating to Perth, WA;
  - Temporary accommodation in Perth, WA;
  - Allowance for a motor vehicle of $2,000/month; and
  - An increase of USD$50,000 per year subject to the Group achieving commercial production of a well.
- Notice Period – 3 months

The Group has entered into a consulting services agreement with Mr Morgan under which he is to provide regular reports in connection with corporate and technical matters pertaining to the extraction of hydrocarbons at the properties owned by the Group.

- Term of Agreement – 16 February 2007 on going
- Fees - USD$1,000 per 8 hour day
- Notice Period – 3 months

Mr Riekie is not employed on a formal contract.

D. Share-based Payment Compensation

Options

No options were granted to key management personnel as remuneration during the year.

Shares

No shares were granted to key management personnel as remuneration during the year.

Details of remuneration: Options

For each grant of options the percentage of the available grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The options granted under the ESOP generally vest over two years, provided the vesting conditions are met (see above). The options granted under shareholder approval vest immediately. No options will vest if the particular conditions (if any) are not satisfied, hence the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

REMUNERATION REPORT (Audited) (Continued)

	Year granted	*Vested %*	*Forfeited %*	*Financial years in which options may vest*	*Minimum total value of grant yet to vest $*	*Maximum total value of grant yet to vest $*
Directors						
Dr T Ramsdale	2009	100%	-	2009	-	-
Mr J Wright	2009	100%	-	2009	-	-
Mr M Bridges	2009	100%	-	2009	-	-
Mr E de Mori	2009	100%	-	2009	-	-

No options were exercised or lapsed during the year.

End of Remuneration Report

DIRECTORS' MEETINGS

The number of Directors' meetings held and the number of meetings attended by each of the Directors of the Company for the time the Director held office during the financial year are:

Number of Meetings Held	24	
Director	**Eligible**	**Attended**
Mr P Morgan	-	-
Mr R Reavley	-	-
Mr D Riekie	-	-
Mr M Bridges	24	24
Mr W Willesee	24	24
Mr E de Mori	24	24

The Company did not have either Audit and Risk, Remuneration or Nomination committees during the year.

NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

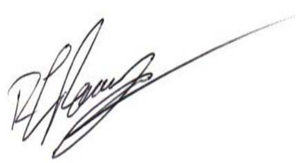
Details of the amounts paid or payable to the auditors, for audit services provided during the year, are set out in note 20 to the financial statements.

During the year Johnson Rorke were employed to provide taxation services to the Group. Fees paid or payable for non-audit services provided by the auditor are set out in note 20 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached to this report on page 17.

Signed in accordance with a resolution of Directors.



Richard Reavley
Managing Director
Perth, Western Australia, 30 September 2010

Board Composition

The skills, experience and expertise relevant to the position of each director, and board committee member, who is in office at the date of the annual report and their term of office are detailed in the Director's report.

The independent director of the Company is Mr David Riekie.

When determining the independent status of a Director the Board used the Guidelines detailed in the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Board sets out below its "if not why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations.

Recommendation		Hawkley Oil and Gas Limited Current Practice
1.1	Companies should establish the functions reserved for the board and those delegated to senior executives and disclose those functions.	Satisfied. The functions reserved for the Board and delegated to senior executives have been established. The Board Charter is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Satisfied. Formal evaluation process has been adopted. The Performance Evaluation Policy is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
1.3	Companies should provide the information indicated in the Guide for reporting on Principle 1	Satisfied The Board Charter is available at www.hawkleyoilandgas.com in the Corporate Governance policy. During the year the composition of management changed significantly. No formal appraisal of management was conducted.
2.1	A majority of the board should be independent directors.	Not Satisfied. Mr Paul Morgan is currently filling the role of Non Executive Chairman but is not independent. Mr Reavley is currently filling the role of Executive Director and Chief Executive Officer, and is not independent. Only Mr David Riekie is classed as independent under ASX guidelines.

		The Board considers that given the size and nature of the Company the current Board is appropriate.
2.2	The chair should be an independent director.	Not Satisfied. Given the size and nature of the Company, Mr Paul Morgan is currently the most appropriate director to act as Chairman.
2.3	The roles of chair and Chief Executive Officer should not be exercised by the same individual.	Satisfied.
2.4	The board should establish a nomination committee.	Not Satisfied. The Board consider that given the current size of the Board (3), this function is efficiently achieved with full Board participation.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Satisfied. Board Performance Evaluation Policy is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2	Satisfied During the year the composition of the Board changed significantly. No formal appraisal was conducted.
3.1	Companies should disclose a code of conduct and disclose the code or a summary of the code as to: The practices necessary to maintain confidence in the company's integrity The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Satisfied. The Code of Conduct is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Satisfied. The Trading Policy is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3	Satisfied

4.1	The board should establish an audit committee.	Not Satisfied. The Board consider that given the current size of the Board (3), this function is efficiently achieved with full Board participation.
4.2	The board committee should be structured so that it: Consists only of non-executive directors Consists of a majority of independent directors Is chaired by an independent chair, who is not chair of the board Has at least three members	Not satisfied. An audit committee has not been formally constituted.
4.3	The audit committee should have a formal charter.	Satisfied.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	Satisfied. The audit committee charter is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Satisfied. Continuous disclosure policy is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	Satisfied
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of their policy.	Satisfied. Shareholders communication strategy is available at www.hawkleyoilandgas.com in the Corporate Governance policy.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	Satisfied
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Satisfied. The company has established policies for the oversight and management of material business risks. Risk management program is available at www.hawkleyoilandgas.com in the Corporate Governance policy.

7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Satisfied. Management consist of the managing director, who has designed and implemented a risk management and internal control system to manage material business risks. Management have reported to the Board that those risks are being managed effectively.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Satisfied. The Board has received a section 295A declaration pursuant to the 2010 financial period.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	Satisfied The board has received the reports and assurances in 7.2 and 7.3. The policies are available on the company's website.
8.1	The board should establish a remuneration committee.	Not Satisfied. The Board considers that given the current size of the Board (3), this function is efficiently achieved with full Board participation and consequently no meetings have been held.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The structure of Directors' remuneration is disclosed in the remuneration report of the annual report.
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	The remuneration committee charter is available at www.hawkleyoilandgas.com in the Corporate Governance policy.

Further information about the Company's corporate governance practices is set out on the Company's website at www.hawkleyoilandgas.com.

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

In relation to our audit of the financial report of Hawkley Oil and Gas Limited for the financial period ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

R J Curtin
Partner
Perth
30 September 2010

HAWKLEY OIL AND GAS LIMITED
Statement of Comprehensive Income
FOR THE PERIOD ENDED 30 JUNE 2010

	Notes	*Consolidated*		*Hawkley Oil and Gas Ltd*	
		1 Jan 2010 to 30 Jun 2010	*1 Jan 2009 to 31 Dec 2009*	*1 July 2009 to 30 June 2010*	*1 July 2008 to 30 June 2009*
		$	*$*	*$*	*$*
Continuing Operations					
Revenue and Other Income					
Interest		-	-	34,881	11,196
Gain on foreign currency movement		290,108	-	-	-
Profit on loan forgiven		937,164	-	38,694	-
		1,227,272	-	73,575	11,196
Administrative expenses		(920,193)	(2,845,110)	(1,022,459)	(898,321)
Corporate expenses		(2,079,489)	-	(2,171,379)	-
Research and development costs		-	-	-	(137,181)
Impairment of loans and receivables		(150,000)	(236,876)	(150,000)	(111,290)
Impairment of exploration expenditure		(619)	-	-	-
Impairment of goodwill		(4,041,159)	-	-	-
Finance costs		(44,363)	(9,680)	-	(63,269)
Loss before income tax	4	(6,008,551)	(3,091,666)	(3,270,263)	(1,198,865)
Income tax expense	5	-	-	-	-
Loss for the year		(6,008,551)	(3,091,666)	(3,270,263)	(1,198,865)
Other comprehensive income:					
Foreign currency translation		(606,705)	899,863	-	-
Total comprehensive income for the period:		(6,615,256)	(2,191,803)	(3,270,263)	(1,198,865)
Earnings per share for loss attributable to ordinary equity holders:		*$*	*$*		
- basic earnings (loss)	6	(0.04)	(0.01)		
- diluted earnings (loss)	6	(0.04)	(0.01)		

The accompanying notes form part of the financial report.

HAWKLEY OILAND GAS LIMITED
Statement of Financial Position
AS AT 30 JUNE 2010

	Notes	*Consolidated*		*Hawkley Oil and Gas Ltd*	
		30 June 2010 *$*	*31 Dec 2009* *$*	*30 June 2010* *$*	*30 Jun 2009* *$*
ASSETS					
Current Assets					
Cash and cash equivalents	7	6,667,076	76,689	5,089,087	413,930
Trade and other receivables	8	69,482	806	86,202	190,409
Prepayments		1,130,726	704,319	64,885	7,616
Inventory		55,592	6,531	-	-
Total Current Assets		7,922,876	788,345	5,240,174	611,955
Non-Current Assets					
Exploration expenditure	9	8,904,454	7,127,288	-	-
Property, plant and equipment	10	20,375	13,483	6,025	-
Investment in subsidiary		-	-	33,420,661	-
Total Non-current Assets		8,924,829	7,140,771	33,426,686	-
TOTAL ASSETS		16,847,705	7,929,116	38,666,860	611,955
LIABILITIES					
Current Liabilities					
Trade and other payables	11	2,122,463	3,219,890	207,556	99,699
Total Current Liabilities		2,122,463	3,219,890	207,556	99,699
Non Current Liabilities					
Total Non-Current Liabilities		-	-	-	-
TOTAL LIABILITIES		2,122,463	3,219,890	207,556	99,699
NET ASSETS		14,725,242	4,709,226	38,459,304	512,256
EQUITY					
Contributed equity	12	22,734,465	9,239,188	44,737,148	7,352,914
Reserves	13	6,311,639	3,782,349	4,067,830	234,753
Accumulated losses		(14,320,862)	(8,312,311)	(10,345,674)	(7,075,411)
TOTAL EQUITY		14,725,242	4,709,226	38,459,304	512,256

The accompanying notes form part of the financial report.

HAWKLEY OIL AND GAS LIMITED
Statement of Cash Flow
FOR THE PERIOD ENDED 30 JUNE 2010

	Notes	*Consolidated*		*Hawkley Oil and Gas Ltd*	
		1 Jan – 30 June 2010	*1 Jan – 31 Dec 2009*	*1 July2009 – 30 June 2010*	*1 July 2008 – 30 June 2009*
		$	*$*	*$*	*$*
Cash flows from operating activities					
Interest received		-	-	34,881	11,196
Finance costs		(44,363)	(9,680)	-	-
Payments to suppliers and employees		(1,295,625)	(1,142,587)	(1,380,037)	(863,271)
Net cash used in operating activities	7	(1,339,988)	(1,152,267)	(1,345,156)	(852,075)
Cash flows from investing activities					
Payment for property, plant and equipment		(6,892)	-	(6,025)	-
Loan to V Patch		-	-	-	(150,000)
Proceeds from loan from key management personnel		384,369	-	-	-
Loans to controlled entities		-	-	-	(395,137)
Repayment of loans to third parties		-	(73,500)	-	-
Repayment of loans by controlled entities		-	-	-	611,940
Exploration expenditure		(1,777,785)	(368,789)	-	-
Cash acquired upon acquisition of subsidiaries		293,783	-	-	-
Net cash used in investing activities		(1,106,525)	(442,289)	(6,025)	66,803
Cash flows from financing activities					
Proceeds from issue of shares		5,500,000	-	6,250,000	783,907
Payments for share issue costs		(173,327)	-	(223,662)	(91,694)
Proceeds from converting notes		3,564,373	-	-	500,000
Net cash from financing activities		8,891,046	-	6,026,338	1,192,213
Net increase in cash and cash equivalents		6,444,533	(1,594,556)	4,675,157	406,941
Foreign exchange differences		145,854	896,504	-	-
Cash and cash equivalents at beginning of period		76,689	774,741	413,930	6,989
Cash and cash equivalents at end of year	7	6,667,076	76,689	5,089,087	413,930

The accompanying notes form part of the financial report.

HAWKLEY OIL AND GAS LIMITED
Statements Of Changes In Equity
FOR THE PERIOD ENDED 30 JUNE 2010

	Contributed Equity $	Performance Shares $	Accumulated Losses $	Convertible Note Equity Reserve $	Share Based Payment Reserve $	Foreign Exchange Reserve $	Total Equity $
CONSOLIDATED							
At 1 January 2009	9,239,188	-	(5,220,645)	-	-	2,882,486	6,901,029
Profit for the period	-	-	(3,091,666)	-	-	-	(3,091,666)
Other comprehensive income	-	-	-	-	-	899,863	899,863
Total comprehensive income for the period	-	-	(3,091,666)	-	-	899,863	(2,191,803)
Transactions with owners in their capacity as owners:							
Issued capital	-	-	-	-	-	-	-
Transaction costs	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-
At 31 December 2009	9,239,188	-	(8,312,311)	-	-	3,782,349	4,709,226
Loss for the period	-	-	(6,008,551)	-	-	-	(6,008,551)
Foreign currency translation	-	-	-	-	-	(606,705)	(606,705)
Total comprehensive income for the period	-	-	(6,008,551)	-	-	(606,705)	(6,615,256)
Transactions with owners in their capacity as owners:							
Deemed consideration transferred on business combination	3,993,539	-	-	-	-	-	3,993,539
Issue of convertible note	-	-	-	3,393,725	-	-	3,393,725
Buy-back of convertible note	4,081,632	-	-	(4,081,632)	-	-	-
Issued on acquisition of subsidiary	9,359,760	1,184,687	-	-	-	-	10,544,447
Acquisition of treasury shares	(10,544,447)	-	-	-	-	-	(10,544,447)
Issue on loan settlement	2,140,932	-	-	-	-	-	2,140,932
Issued capital	5,500,000	-	-	-	-	-	5,500,000
Transaction costs	(2,220,826)	-	-	-	-	-	(2,220,826)
Share based payments	-	-	-	-	3,823,902	-	3,823,902
At 30 June 2010	21,549,778	1,184,687	(14,320,862)	(687,907)	3,823,902	3,175,644	14,725,242

The accompanying notes form part of the financial report.

HAWKLEY OIL AND GAS LIMITED
Statements Of Changes In Equity
FOR THE PERIOD ENDED 30 JUNE 2010

	Contributed Equity $	Performance Shares	Accumulated Losses $	Share Based Payment Reserves $	Total Equity $
HAWKLEY OIL AND GAS LIMITED					
At 1 July 2008	5,953,418	-	(5,876,546)	126,343	203,215
Profit for the period	-	-	(1,198,865)	-	(1,198,865)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(1,198,865)	-	(1,198,865)
Transactions with owners in their capacity as owners:					
Issued capital	1,623,190	-	-	-	1,623,190
Transaction costs	(223,694)	-	-	-	(223,694)
Share based payments	-	-	-	108,410	108,410
At 30 June 2009	7,352,914	-	(7,075,411)	234,753	512,256
Loss for the period	-	-	(3,270,263)	-	(3,270,263)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(3,270,263)	-	(3,270,263)
Transactions with owners in their capacity as owners:					
Issued capital on acquisition of subsidiaries	30,124,370	3,296,291	-	-	33,420,661
Issued capital	6,250,000	-	-	-	6,250,000
Transaction costs	(2,286,427)	-	-	-	(2,286,427)
Share based payments	-	-	-	3,833,077	3,833,077
At 30 June 2010	41,440,857	3,296,291	(10,345,674)	4,067,830	38,459,304

The accompanying notes form part of the financial report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of Hawkley Oil and Gas Limited (the Company) and the entities it legally controlled (the Group) for or during the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 30 September 2010.

Hawkley Oil and Gas Limited is a public company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

On 22 June 2010, Hawkley Oil and Gas Limited (formerly Incitive Ltd) ("HOG") completed the legal acquisition of Janita Global Limited and its subsidiaries ("Janita"). Under the terms of Australian Accounting Standard AASB 3 Business Combinations (Revised), Janita was deemed to be the accounting acquirer in the business combination. The transaction has therefore been accounted for as a reverse acquisition. In order to provide the clearest information to the user of the financial report, both consolidated and HOG information has been included throughout.

The consolidated financial statements of the Group have been prepared as a continuation of the business and operations of Janita. Janita, as the deemed acquirer, has accounted for the acquisition of HOG from 22 June 2010. The comparative information consists of the period 1 January 2009 to 31 December 2009 for Janita. HOG comparative information covers the year to 30 June 2009.

The financial year end of Janita is 31 December. The financial year end of HOG is 30 June. The last audited accounts of HOG, as lodged with the Australian Securities Exchange, were 30 June 2009.

The implications of the application of AASB 3 on each of the financial statements are as follows:

Statement of Comprehensive Income

- The 2009 Consolidated Statement of Comprehensive Income comprises 12 months of Janita and its subsidiaries to 31 December 2009 while the Statement of Comprehensive Income for HOG comprises the 12 months ended 30 June 2009; and
- The 2010 Consolidated Statement of Comprehensive Income comprises 6 months of Janita ended 30 June 2010 and 8 days of HOG and its subsidiaries to 30 June 2010 while the Statement of Comprehensive Income for HOG covers the 12 months ended 30 June 2010.

Statement of Financial Position

- The 2009 Consolidated Statement of Financial Position as at 31 December 2009 for Janita and its subsidiaries;
- The 2009 Statement of Financial Position as at 30 June 2009 for HOG;
- The 2010 Consolidated Statement of Financial Position represents the combination of Janita and HOG as at 30 June 2010.
- The 2010 Statement of Financial Position represents HOG at 30 June 2010.

Statement of Changes in Equity

- The 2009 Statement of Changes in Equity comprises:
  - The equity balance of Janita at the beginning of the 12 months ended 31 December 2009.
  - The total comprehensive income of Janita for the period and transactions with equity holders, being 12 months ended 31 December 2009.
  - The equity balance of Janita at 31 December 2009.
  - The equity balance of HOG at the beginning of the 12 months ended 30 June 2009
  - The total comprehensive income of HOG for the period and transactions with equity holders, being 12 months ended 30 June 2009.
  - The equity balance of HOG at 30 June 2009.

- The 2010 Statement of Changes in Equity comprises:
  - The equity balance of Janita at the beginning of the 6 months ended 30 June 2010.
  - The total comprehensive income and transactions with equity holders of Janita for the 6 month period ended 30 June 2010 and the total comprehensive income and transactions with equity holders of HOG for the 8 day period from the date of combination to 30 June 2010.
  - The equity balance of the combined Janita and HOG at 30 June 2010.
  - The equity balance of HOG at the beginning of the 12 months ended 30 June 2010
  - The total comprehensive income of HOG for the period and transactions with equity holders, being 12 months ended 30 June 2010.
  - The equity balance of HOG at 30 June 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of Cash Flows

- The 2009 Statement of Cash Flows comprises:
  - The cash balance of Janita at the beginning of the 12 month period ended 31 December 2009;
  - The transactions of Janita for the 12 month period ended 31 December 2009;
  - The cash balance of Janta at 31 December 2009.
  - The cash balance of HOG at the beginning of the 12 month period ended 30 June 2009;
  - The transactions of HOG for the 12 month period ended 30 June 2009;
  - The cash balance of HOG at 30 June 2009.

- The 2010 Statement of Cash Flows comprises:
  - The cash balance of Janita at the beginning of the 6 month period ended 30 June 2010;
  - The transactions of Janita for the 6 month period ended 30 June 2010 and the transactions of HOG for the 8 day period from the date of combination to 30 June 2010;
  - The cash balances of the combined Janita and HOG at 30 June 2010.
  - The cash balance of HOG at the beginning of the 12 month period ended 30 June 2010;
  - The transactions of HOG for the 12 month period ended 30 June 2010;
  - The cash balance of HOG at 30 June 2010.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), and the *Corporations Act 2001*. The financial report is presented in Australian dollars.

The Company has adopted ASIC Class Order 10/654 and has provided parent entity information in the financial report. The Company is an entity of the kind referred to in the Class Order.

Compliance Statement
The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Historical cost convention
These financial statements have been prepared under the historical cost convention.

Critical accounting estimates and judgements
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Disclosure on the estimates and judgements made by the Group in preparing the financial report can be found at note 2.

New and Amended Accounting Standards
The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009. Adoption of these Standards did not have any effect on the financial position or performance of the Group.

- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2]*
- AASB 7 *Financial Instruments: Disclosures*
- AASB 8 *Operating Segments*
- AASB 101 *Presentation of Financial Statements (revised 2007)*
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- AASB 2009-3 *Amendments to Australian Accounting Standards – Embedded Derivatives [AASB 139 and Interpretation 9]*
- AASB 2009-6 *Amendments to Australian Accounting Standards* operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009
- AASB 3 *Business Combinations (revised 2008)*
- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of Preparation (continued)

- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]*
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments (AASB 4, AASB 7, AASB 1023 & AASB 1038)*
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-7 *Amendments to Australian Accounting Standards* effective 1 July 2009

  The amendments are editorial amendments to AASB 5, AASB 7, AASB 107, AASB 112, AASB 136, AASB 139 and AASB Interpretation 17 that have no major impact on the requirements of the amended pronouncements. The amendment had no impact on the application or wording of the Group's accounting policies.

When the adoption of a new or amended Standard or Interpretation is deemed to have an impact on the financial statements, its impact is described below:

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. The new requirements were applied to the legal acquisition of Janita during the period. As a consequence of the new requirements, transaction costs of $2,079,489 were expensed during the period.

AASB 127 (revised 2008) requires that a change in the ownership interest in a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 127 (revised 2008) will affect future changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity note includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. AASB 8 disclosures are shown in note 3, including the related revised comparative information.

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of the legal parent entity, Hawkley Oil and Gas Limited, and its subsidiaries as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared using accounting policies consistent to the parent. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(b) Principles of consolidation (Continued)

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries held by the company are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

(c) Segment reporting

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the board of directors.

Management currently identifies the Group as having only two operating segment, being research and development of immunosuppressant compounds within Australia and the exploration of oil and gas in the Ukraine. The information presented to the Group's Chief Operating Decision Maker is disclosed in Note 3.

(d) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Government Grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation
The Company and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

(f) Business combinations

Subsequent to 1 January 2009
Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Prior to 1 January 2009
Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(f) Business combinations (Continued)

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

(g) Impairment of assets

Financial assets
A financial asset not carried at fair value through profit of loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security etc. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below cost is objective evidence of impairment.

An impairment loss in respect of a financial assets measured at amortised cost is the calculated difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit and loss.

Impairment losses on available for sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit and loss. The cumulative loss that is removed from other comprehensive income recognised in profit or loss is the difference between the acquisition cost and the current fair value.

Non-financial assets
Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

(h) Cash and cash equivalents

For cash-flow presentation purposes cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Trade and other receivables are generally due for settlement within 30-90 days.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired.

The Group has no financial assets at fair value through profit and loss, held-to-maturity investments or available-for-sale financial assets.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortised cost using effective interest rate method less any impairments. The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(k) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and fair value through profit and loss and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(l) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is generally calculated on a straight-line basis so as to allocate the cost, net of residual values, of each item of plant and equipment over its estimated useful life to the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Plant and equipment (Continued)

The estimated useful lives are as follows:

Class	Life
Plant and equipment	3-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(m) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, instead it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at costs less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Goodwill is allocated to the cash generating units for the purpose of impairment testing.

(n) Deferred exploration expenditure

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and
(ii) at least one of the following conditions is also met:
  a. the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
  b. exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are occurring.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

(o) Intangibles

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the statement of comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(o) Intangibles (continued)

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged to the income statement in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Internally Generated Intangible Assets – Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(p) Foreign currency translation
(i) Functional and presentation currency
Both the functional and presentation currency of the Company is Australian dollars ($). The overseas subsidiaries' of the company's financial statements are translated to the presentation currency from their functional currency (United States dollars).

(ii) Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(q) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 22.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(s) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised in the employee benefits provision in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

The Group makes contributions to defined contribution superannuation funds. Contributions are recognised as an expense as they become payable.

(u) Contributed equity

Ordinary shares and preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Own equity instruments which are recognised are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, issue or cancellation of the Group's own equity instruments

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(w) Convertible notes

Convertible notes are issued be the Company and are convertible to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(w) Convertible notes (Continued)

The liability component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the convertible note as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a convertible note is measured at amortised cost using the effective interest rate method. The equity component of a convertible note is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefits.

(x) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(y) Inventory

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(z) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(aa) Accounting standards and interpretations issued but not yet effective

Relevant accounting standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2010, are as follows:

(i) Amendments to AASB 5 Non-current assets held for sale and discontinued operations (effective 1 January 2010)

The amendments clarify that the required disclosure for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. The Group has not yet considered the impact of this change.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(aa) Accounting standards and interpretations issued but not yet effective (Continued)

(ii) Amendments to AASB 8 Operating segments (effective 1 January 2010)
The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The Group has not yet considered the impact of this change.

(iii) Amendments to AASB 101 Presentation of Financial Statements (effective 1 January 2010)
The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of the liability by the issue of equity instruments. The Group has not yet considered the impact of this change.

(iv) Amendments to AASB 107 Statement of Cash Flows (effective 1 January 2010)
The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. The Group has not yet considered the impact of this change.

(v) Amendments to AASB 117 Leases (effective 1 January 2010)
The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of AASB 117, taking account of the fact that land normally has an indefinite economic life. The Group has not yet considered the impact of this change.

(vi) Amendments to AASB 136 Impairment of assets (effective 1 January 2010)
The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in AASB 8 before applying the aggregation criteria of AASB 8. The amendment applies prospectively. The Group has not yet considered the impact of this change.

(vii) Amendments to AASB 139 Financial Instruments: Recognition and measurement (effective 1 January 2010)
The amendments:

- Provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated;
- Clarify that the scope exemption in AASB 139 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future date within a reasonable period normally necessary to obtain any required approval and to complete the transaction; and
- Clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

The amendments apply prospectively to all unexpired contracts from the date of adoption. The Group has not yet considered the impact of this change.

(viii) Amendments to AASB 1 First time adoption of international financial reporting standards (effective 1 January 2010)
The AASB provided additional optional exemptions for first-time adopters of IFRSs that will:

- Permit entities to not reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and
- Allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed costs at the date of transition for oil and gas assets.

The Group has not yet considered the impact of this change.

(ix) Amendments to AASB 2 Share based payments (effective 1 January 2010)
The AASB amended AASB 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principal even applies if another group or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment.

Retrospective application is subject to the transitional requirements in AASB 2. The Group has not yet considered the impact of this change.

(x) Amendments to AASB 132 Financial Instruments: Presentation (effective 1 February 2010)
The AASB amended AASB 132 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group has not yet considered the impact of this change.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Accounting standards and interpretations issued but not yet effective (Continued)

(xi) AASB 9 Financial Instruments (effective 1 January 2013)

This standard simplifies requirements for the classification and measurement of financial assets resulting from the AASB's project to replace AASB 139 Financial instruments: recognition and measurement. The Group has not yet considered the impact of this change.

(xii) Amendments to AASB 124 Related party disclosure (effective 1 January 2011)

Government related entities have been granted partial exemption with certain disclosure requirements. The Group has not yet considered the impact of this change.

(xiii) Amendments to AASB 132 Financial Instruments: Presentation (effective 1 February 2010)

The AASB amended AASB 132 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

(xiv) AASB 2009-12 Amendments to Australian Accounting Standards arising from interpretation 19 (effective 1 July 2010)

Requires an entity to exercise judgement in assessing whether a government and entities know to be under the control of that government are considered a single customer for purposes of certain operating segments disclosures. The Group has not yet considered the impact of this change.

2. CRITICAL ACCOUNTING ESTIMATES ASSUMPTIONS AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(ii) Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

(iii) *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes method. The related assumptions are detailed in note 22. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

3. SEGMENT INFORMATION

The group has identified its operating segments on the management accounts prepared by each company within the group. These management reports are reviewed by the Board of Directors (the chief operating decision makers) in assessing the performance and position of each company within the group.

The Group, representing the ongoing activities of Janita, operated in only 1 segment, that of exploration for oil and gas assets. All management accounts were prepared towards assessing the performance and position of that single segment. Since that date, the group has acquired a group of companies that has historically researched immunology. All assets relating to immunology are fully impaired at 30 June 2010 and no transactions relating to immunology have occurred in the 8 days between acquisition date and year end. Accordingly, the reportable segments in the report are divided into, Oil and Gas Exploration and Unallocated Overheads.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the financial report.

The following items are not allocated to segments as they are not considered part of core operations of any segment and are managed on a Group basis:

- Foreign exchange gains/(losses)
- Gains on settlement of loans
- Administrative expenses
- Corporate expenses
- Impairment of assets
- Impairment of goodwill
- Finance Costs

The Group does not have any revenue from external customers during the six months ended 30 June 2010 or during comparative periods. All material non-current assets are located in the Ukraine.

3. SEGMENT INFORMATION (Continued)

Period ended 30 June 2010	*Exploration for Oil and Gas Assets*	*Biotech*	*Total*
	$	*$*	*$*
Revenue	-	-	-
Expenses	-	-	-
Profit	-	-	-

Reconciliation of segment loss after tax to net loss after tax	
Foreign currency gain	290,108
Gain on settlement of loans	937,164
Administrative expenses	(920,193)
Corporate expenses	(2,079,489)
Impairment of assets	(150,619)
Impairment of goodwill	(4,041,159)
Finance costs	(44,363)
	(6,008,551)

	Exploration for Oil and Gas Assets	*Biotech*	Overheads and consolidation entries	*Total*
Deferred Exploration Expenditure	8,904,454	-	-	8,904,454
Total Assets	10,174,455	-	6,673,250	16,847,705
Total Liabilities	(12,675,635)	-	10,553,172	(2,122,463)
Total Equity	(2,501,180)	-	17,226,422	14,725,242

Year ended 31 December 2009	*Exploration for Oil and Gas Assets*	*Biotech*	*Total*
	$	*$*	*$*
Revenue	-	-	-
Expenses	-	-	-
Profit	-	-	-

Reconciliation of segment loss after tax to net loss after tax	
Administrative expenses	(2,845,110)
Impairment of assets	(236,876)
Finance costs	(9,680)
	(3,091,666)

	Exploration for Oil and Gas Assets	*Biotech*	Overheads and consolidation entries	*Total*
Deferred Exploration Expenditure	7,127,288	-	-	7,127,288
Total Assets	7,873,219	-	55,897	7,929,116
Total Liabilities	(10,490,351)	-	7,270,461	(3,219,890)
Total Equity	(2,617,132)	-	7,326,358	4,709,226

4. LOSS BEFORE INCOME TAX

Loss before income tax includes the following specific expenses:

	CONSOLIDATED		*HAWKLEY OIL AND GAS LIMITED*	
	2010	*2009*	*2010*	*2009*
	$	*$*	*$*	*$*
Minimum lease payments - operating lease	13,169	22,183	13,169	6,013
Employee benefits expense	-	-	91,641	633,950
Share based payments	2,079,489	-	9,175	101,410
Impairment of loans	150,000	-	150,000	-
Impairment of receivables	-	236,876	-	-
Impairment of exploration assets	619	-	-	-
Impairment of goodwill	4,041,129	-	-	-

5. INCOME TAX

	CONSOLIDATED		HAWKLEY OIL AND GAS LIMITED	
Current tax expense	*2010 $*	*2009 $*	*2010 $*	*2009 $*
Income tax benefit				
Current tax	-	-	-	-
Deferred tax	-	-	-	-

Reconciliation of income tax expense to prima facie tax:

	CONSOLIDATED 2010 $	CONSOLIDATED 2009 $	HAWKLEY OIL AND GAS LIMITED 2010 $	HAWKLEY OIL AND GAS LIMITED 2009 $
Loss before income tax	(6,008,551)	(3,091,666)	(3,270,263)	(1,198,865)
At the Australian tax rate of 30% (2009: 30%)	(1,802,565)	(927,500)	(981,079)	(359,659)
Capital raising costs	50,322	-	80,562	-
Impairment of assets	1,257,533	71,063	45,000	-
Non deductable expenses/(deductable tax adjustments)	503,538	-	697,732	32,590
Temporary differences not recognised as a deferred tax asset	(23,352)	23,352	(3,600)	(50,089)
Current year losses not recognised as a deferred tax asset	14,524	833,085	161,385	377,158
Income tax expense	-	-	-	-

Tax Losses

Estimated unused tax losses at 30 June 2010 of $5,910,769 for the Group and $3,253,837 for Hawkley Oil and Gas Limited have not been recognised as a deferred tax asset as the future recovery of these losses is subject to the entities satisfying the requirements imposed by the relevant regulatory authorities in the respective jurisdictions in which the Group operates. The benefits of deferred tax assets not brought to account will only be brought to account if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; and
- The conditions of deductibility imposed by the relevant tax legislation continue to be complied with and no changes in tax legislation adversely affect the Group in realising the benefit.

6. EARNINGS PER SHARE

	CONSOLIDATED	
	2010	*2009*
	$	*$*
Basic earnings per share	(0.04)	(0.01)
Diluted earnings per share	(0.04)	(0.01)

Information concerning earnings per share:

(a) Earnings for the purpose of calculating basic and diluted earnings per share is the loss attributable to members of the parent.

(b) Options granted are considered to be potential ordinary shares. At 30 June 2010 there were 28,363,336 options outstanding.

(c) Performance shares are contingent issuable potential ordinary shares. At 30 June 2010 there were 32,962,910 performance shares outstanding.

(d) In 2009 and 2010 the options and performance shares are not considered dilutive and are therefore not included in the calculation of diluted earnings per share. The options and performance shares could potentially dilute basic earnings per share in the future.

(e) Reconciliation of weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share is as follows:

Amount used in calculating basic earnings per share	151,896,455	150,621,844
Impact of potential ordinary shares	-	-
Number used in calculating diluted earnings per share	151,896,455	150,621,844

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		*HAWKLEY OIL AND GAS LIMITED*	
	2010	*2009*	*2010*	*2009*
	$	*$*	*$*	*$*
Cash at bank and in hand	6,667,076	76,689	5,089,087	413,930
	6,667,076	76,689	5,089,087	413,930

Information about the Group's and the Company's exposure to interest rate risk is provided in note 14.

Reconciliation from the net loss after tax to the net cash flows from operations	*CONSOLIDATED*		HAWKLEY OIL AND GAS LIMITED	
	2010	*2009*	*2010*	*2009*
	$	*$*	*$*	*$*
Net loss for the year	(6,008,551)	(3,091,666)	(3,270,263)	(1,198,865)
Adjustments for:				
Gain on settlement of loan	(572,391)	-	-	-
Net assets gained through business combination	(47,620)	-	-	4,307
Share Based Payments	2,079,489	-	1,329,583	315,693
Cash acquired upon acquisition of subsidiaries	(293,783)	-	-	-
Foreign exchange (gains)/ losses	(290,108)	5,931	440,731	111,290
Impairment of receivables	-	-	-	3,609
Write-off of goodwill	4,041,159	-	-	-
Write-off of exploration expenditure	619		-	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	(68,676)	644,830	104,207	(21,018)
(Increase)/decrease in prepayments	(426,407)	1,777,989	(57,270)	2,024
(Increase)/decrease in inventory	(49,061)	-	-	-
(Increase)/decrease in intangibles	-	-	-	-
(Increase)/decrease in investment property	-	-	-	-
(Increase)/decrease in exploration expenditure	-	-	-	-
Increase/(decrease) in trade and other payables	295,342	(489,351)	107,856	(35,486)
Increase/(decrease) in provisions	-	-	-	(33,629)
Increase/(decrease) in share based payment reserve				
Net cash used in operating activities	(1,339,988)	(1,152,267)	(1,345,156)	(852,075)

Non-cash investing and financing activities

Options issued to lenders as repayments for nil cash are shown in note 12.

8. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		HAWKLEY OIL AND GAS LIMITED	
	2010 *$*	*2009* *$*	*2010* *$*	*2009* *$*
Trade receivables	69,482	806	-	-
Other receivables	-	-	86,202	190,409
	69,482	806	86,202	190,409

These amounts are unsecured, non-interest bearing and due 30-90 days from the date of recognition. Their fair value approximates their carrying amount.

There are no significant other receivables for either the Group or the Company that are past due or impaired.

Information about the Group's and the Company's exposure to credit risk is provided in note 14.

9. EXPLORATION EXPENDITURE

Balance at beginning of the period	7,127,288	6,765,030	-	-
Capitalised during the year	1,777,785	362,258	-	-
Exploration written off during the year	(619)	-	-	-
Balance at end of the period	8,904,454	7,127,288	-	-

The recoverability of the carrying amount of the transaction and evaluation assets is dependent upon the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

10. PLANT AND EQUIPMENT

	Plant and Equipment
	CONSOLIDATED *$*
At 30 June 2010	
Cost	23,966
Accumulated depreciation	(3,591)
Net book value	20,375
At 31 December 2009	
Cost	17,074
Accumulated depreciation	(3,591)
Net book value	13,483
Movement in plant and equipment:	
At 1 January 2009	13,483
Depreciation	-
Additions	-
At 31 December 2009	13,483
Depreciation	-
Additions	867
On acquisition of subsidiary	6,025
At 30 June 2010	20,375

10. PLANT AND EQUIPMENT (CONTINUED)

	Plant and Equipment
	HAWKLEY OIL AND GAS LIMITED
	$
At 30 June 2010	
Cost	6,025
Accumulated depreciation	-
Net book value	6,025
At 30 June 2009	
Cost	-
Accumulated depreciation	-
Net book value	-
Movement in plant and equipment:	
At 1 July 2008	-
Depreciation	-
Additions	-
At 30 June 2009	-
Depreciation	-
Additions	6,025
At 30 June 2010	6,025

11. TRADE AND OTHER PAYABLES

	CONSOLIDATED		HAWKLEY OIL AND GAS LIMITED	
	2010	*2009*	*2010*	*2009*
	$	*$*	*$*	*$*
Trade payables[1]	513,839	3,557	207,556	99,699
Accrued interest	-	77,840	-	-
Loans from Directors[2]	1,499,986	3,001,394	-	-
Other payables	108,638	137,099	-	-
	2,122,463	3,219,890	207,556	99,699

[1]Trade payables and accruals are generally unsecured, non-interest bearing and due 30-90 days from the date of recognition. Their fair value approximates their carrying amount.
[2]Loans from Directors are generally unsecured, non-interest bearing and payable on demand. Their fair value approximates their carrying amount.

12. CONTRIBUTED EQUITY

CONSOLIDATED	2010 $	2009 $
Ordinary shares - Issued and fully paid	21,549,778	9,239,188
Performance shares	1,184,687	-
	22,734,465	9,239,188

CONSOLIDATED	*Notes*	*2010 Number*	*2009 Number*
Movement in ordinary shares on issue			
Beginning of the financial period		10,000	10,000
Elimination of existing Janita shares as part of acquisition of Hawkley		(10,000)	-
Existing Hawkley shares acquisition of Hawkley		510,188,014	-
Share restructure during 2010	(d)	(491,058,180)	-
Shares issued on acquisition	(a)	150,621,844	-
Shares issued as part of capital raising during 2010	(b)	27,500,000	-
Shares issued as payment of creditors	(c)	10,704,660	-
End of the financial period		207,956,338	10,000
Less: Treasury shares		(46,798,798)	-
		161,157,540	10,000

CONSOLIDATED	*2010* *$*	*2009* *$*
Movement in ordinary share capital		
Beginning of the financial period	9,239,188	9,239,188
Conversion of shareholder loans	2,140,932	-
Deemed consideration transferred on business combination	3,993,539	-
Issued on acquisition of subsidiary	9,359,760	-
Issued on buy-back of convertible note	4,081,632	-
Acquistion of treasury shares	(10,544,447)	-
Issued for cash consideration	5,500,000	-
Transaction costs	(2,220,826)	-
End of the financial period	21,549,778	9,239,188

CONSOLIDATED		*2010* *Number*	*2009* *Number*
Movement in performance shares capital			
Beginning of the financial period		-	-
Issued on acquisition of subsidiary	(e)	32,962,910	-
End of the financial period		32,962,910	-

CONSOLIDATED	*2010* *$*	*2009* *$*
Movement in performance share capital		
Beginning of the financial period	-	-
Issued on acquisition of treasure shares	1,184,687	-
End of the financial period	1,184,687	-

(a) Hawkley Oil and Gas Limited issued 150,621,844 ordinary shares and 32,962,910 performance shares on 22 June 2010 in respect of the Janita transaction.
(b) Hawkley Oil and Gas Limited raised $5,500,000 via the issue of 27,500,000 ordinary shares to be used to further explore exploration assets in the Ukraine.
(c) Hawkley Oil and Gas issued 10,704,660 shares on 29 June 2010 to repayment amount owning to lenders.
(d) Capital reduction on a 26.67:1 basis.
(e) Performance shares will convert to ordinary shares on a 1:1 basis upon completion of the drilling of well number 201, and a proved reserve of value exceeding USD$36,000,000 being independently verified by a qualified expert within 9 months of the issue of the performance shares.

HAWKLEY OIL AND GAS LIMITED	2010 $	2009 $
Ordinary shares - Issued and fully paid – 207,966,338 (2009: 360,188,014)	41,440,857	7,352,914
Performance shares - Issued and fully paid – 32,962,910 (2009: nil)	3,296,291	-
	44,737,148	7,352,914

12. CONTRIBUTED EQUITY (CONTINUED)

HAWKLEY OIL AND GAS LIMITED	Notes	2010 Number	2009 Number
Movement in ordinary shares on issue			
Beginning of the financial period		360,188,014	46,850,000
Shares issued as part of capital raising		150,000,000	156,556,507
Shares issued as part of rights issue		-	156,781,507
Share restructure during 2010	(d)	(491,058,180)	-
Shares issued on acquisition of subsidiaries	(a)	150,621,844	-
Shares issued as part of capital raising during 2010	(b)	27,500,000	-
Shares issued as payment of creditors	(c)	10,704,660	-
End of the financial period		207,956,338	360,188,014

HAWKLEY OIL AND GAS LIMITED	2010 $	2009 $
Movement in ordinary share capital		
Beginning of the financial period	7,352,914	5,953,418
Issued for cash consideration in 2009	-	1,623,190
Issued for cash consideration in 2010	6,250,000	-
Issued on acquisition of subsidiaries	30,124,370	-
Transaction costs	(2,286,427)	(223,694)
End of the financial period	41,440,857	7,352,914

HAWKLEY OIL AND GAS LIMITED	2010 Number	2009 Number
Movement in performance shares capital		
Beginning of the financial period	-	-
Issued on acquisition of subsidiary	32,962,910	-
End of the financial period	32,962,910	-

HAWKLEY OIL AND GAS LIMITED	2010 $	2009 $
Movement in performance share capital		
Beginning of the financial period	-	-
Issued on acquisition of treasure shares	3,296,291	-
End of the financial period	3,296,291	-

Options

As at balance date the number of options to purchase ordinary shares in the parent entity was as follows: (note: the amounts shown below are post the 26.67:1 consolidation of issued capital including comparatives)

2010 No.	*2009 No.*	*Exercise Price*	*Expiry Date*
-	28,121	$5.33	1 March 2010
15,000	15,000	$5.33	1 September 2010
50,620	50,620	$5.33	21 November 2010
3,750	3,750	$5.33	11 August 2011
2,249,721	-	$0.27	30 June 2012
37,496	37,496	$2.67	19 November 2011
14,758,155	-	$0.20	31 January 2014
11,248,594	-	$0.20	31 January 2014

Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as maintain optimal return to shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity commensurate with the business risk. Given the nature of the Group's operations, capital is normally raised through the issue of new shares to provide for future business opportunities. Management has current plans to issue further shares and provide funds for existing programs and business opportunities. The Group is not subject to any externally imposed capital requirements.

13. RESERVES

Share based payment reserve
The share based payment reserve is used to recognise the fair value of options issued as payment for goods or services.

Foreign currency translation reserve
The foreign currency translation reserve is used to recognise the difference that arises in applying the method of accounting for foreign currency translation in accordance with AASB 121.

Convertible note equity reserve
The equity reserve arose on issue and subsequent buy-back of convertible note issued by Janita Global Limited. The convertible note had no coupon on issue and was not repayable.

14. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise cash and short term deposits, receivables and payables. Exposure to key financial risks is managed in accordance with the Group's risk management policy with the objective to ensure that the financial risks inherent in oil and gas exploration activities are identified and then managed or kept as low as reasonably practicable.

The main financial risks that arise in the normal course of business are market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Different methods are used to measure and manage these risk exposures. Liquidity risk is monitored through the ongoing review of available cash and future commitments for exploration expenditure. Exposure to liquidity risk is limited by anticipating liquidity shortages and ensure capital can be raise in advance of shortages. Interest rate risk is managed by limiting the amount interest bearing loans entered into by the Group. It is the Board's policy that no speculative trading in financial instruments be undertaken so as to limit expose to price risk.

Primary responsibility for identification and control of financial risks rests with the C.E.O. and Company Secretary, under the authority of the Board. The Board is appraised of these risks from time to time and agrees any policies that may be undertaken to manage any of the risks identified.

Details of the significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each financial instrument are disclosed in Note 1 to the financial statements.

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments recognised in the financial statements.

	CARRYING AMOUNT		*FAIR VALUE*	
	2010	*2009*	*2010*	*2009*
	$	*$*	*$*	*$*
CONSOLIDATED				
Financial Assets				
Cash and cash equivalents	6,667,076	76,689	6,667,076	76,689
Trade and other receivables	69,482	806	69,482	806
	6,736,558	77,495	6,736,558	77,495
Financial Liabilities				
Trade and other payables	2,122,463	3,219,890	2,122,463	3,219,890

	CARRYING AMOUNT		*FAIR VALUE*	
	2010	*2009*	*2010*	*2009*
	$	*$*	*$*	*$*
HAWKLEY OIL AND GAS LIMITED				
Financial Assets				
Cash and cash equivalents	5,089,087	413,930	5,089,087	413,930
Trade and other receivables	86,202	190,409	86,202	190,409
	5,175,289	604,339	5,175,289	604,339
Financial Liabilities				
Trade and other payables	207,556	99,699	207,556	99,699

14. FINANCIAL RISK MANAGEMENT (continued)

The financial assets and liabilities are recognised on the statement of financial position in accordance with the accounting policies set out in Note 1. The carrying values less the impairment allowance for receivables and payables are assumed to approximate fair values due to their short term nature. Cash and cash equivalents are subject to variable interest rates.

Market Risk

Interest rate risk
The Group's cash-flow interest rate risk primarily arises from cash at bank and deposits subject to market bank rates. At balance date, the Group does not have any borrowings. The Group does not enter into hedges. An increase/ (decrease) in interest rates by 1% during the whole of the respective periods would have led to an increase/(decrease) in both equity and losses of less than $10,000. 1% was thought to be appropriate because it represents four 0.25 basis point rate rises/falls, which is appropriate in the recent economic climate.

Foreign currency risk

As a result of significant operations in the Ukraine and significant payments and receipts denominated in United States Dollars, the Group's statement of financial position can be affected significantly by movements in the UAH/AUD and USD/AUD exchange rates. At 30 June 2010, the Group no longer held loans or receivable that were payable or receivable in foreign currencies. This should reduce the exposure adverse movements in foreign currency rates that might cause financial risk. It is the Group's policy to borrow funds in AUD.

Had either the UAH/AUD or USD/AUD exchange rates changed by 1% there would have been an effect on the losses of less than $10,000. The same fluctuation would have changed the foreign currency reserve by $10,014.

Credit risk

The Group trades only with recognised, creditworthy third parties.

The Group has no customers and consequently no significant exposure to bad debts or other credit risks.

With respect to credit risk arising from financial assets, which comprise cash and cash equivalents and receivables, the exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. At balance date cash and deposits were held with National Australia Bank.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash reserves to meet the ongoing operational requirements of the business. It is the Group's policy to maintain sufficient funds in cash and cash equivalents. Furthermore, the Group monitors its ongoing research and development cash requirements and raises equity funding as and when appropriate to meet such planned requirements. The Group has no undrawn financing facilities. Trade and other payables, the only financial liability of the Group, are due within 3 months.

15. BUSINESS COMBINATION

(a) Summary of acquisition

On 22 June 2010, Janita Global Limited was deemed to have acquired 100% of the issued share capital of Hawkley Oil and Gas Limited (formerly Incitive Limited) by way of a reverse acquisition.

Janita transferred consideration of $3,993,539 to the former shareholders of Hawkley in the form of 150,621,848 ordinary shares and 32,962,910 preference shares. See note 22 for details of valuation.

At the date of acquisition, Janita was involved in the exploration of oil and gas in the Dnieper-Donets Basin in the Ukraine. Hawley Oil and Gas has biotechnology assets which it holds in its subsidiary Sarantis Pty Ltd.

Details of the provisional fair value of the assets and liabilities acquired and goodwill are as follows:

	$'000
Purchase consideration	
Ordinary shares	3,825,935
Options	167,604
Total purchase consideration	3,993,539
Fair value of net identifiable assets acquired (refer to (b) below)	(47,620)
Goodwill (refer to (b) below)	4,041,159

(b) Assets and liabilities acquired

The provisional fair values of assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount $'000	Fair value $'000
Cash	293,783	293,783
Trade receivables	86,306	86,306
Prepayments	3,870	3,870
Plant and equipment	7,040	7,040
Deferred tax asset	-	-
Intangible assets	-	-
Trade payables	(438,619)	(438,619)
Provision for employee benefits	-	-
Deferred tax liability	-	-
Retirement benefit obligations	-	-
Net assets	(47,620)	(47,620)
Net identifiable assets acquired		(47,620)
Goodwill on acquisition		4,041,159

Goodwill, representing the premium on acquisition, has been written off in the statement of comprehensive income because the directors have determined that there is no future benefit associated with it, based on estimated future cash flows.

The fair values of assets and liabilities are provisional due to the timing of the reverse acquisition which was only eight days prior to year end.

16. COMMITMENTS

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		*HAWKLEY OIL AND GAS LMITED*	
	2010	*2009*	*2010*	*2009*
	$	*$*	*$*	*$*
Within one year	57,429	-	54,000	-
After one year but not more than five years	-	-	-	-
	57,429	-	54,000	-

17. SUBSIDIARIES

	Country of incorporation	*Equity interest*	
		2010	*2009*
Legal Parent:			
Hawkley Oil and Gas Limited			
Legal Subsidiaries:			
Neomune Pty Ltd	Australia	100%	100%
Immunex Pty Ltd *	Australia	100%	100%
Sarantis Pty Ltd	Australia	100%	100%
Janita Global Limited	Australia	100%	-
Ukraine Investments Ltd	Australia	100%	-
Ukraine Gas Investments Ltd	Australia	100%	-
Prime Gas LLC	UK	100%	-

18. RELATED PARTIES

Other transactions with subsidiaries

There were no transactions with the subsidiaries after the business combination.

Intercompany loans

Janita has a $12,409,011 (2009: $9,822,524) loan to Prime Gas LLC at 30 June 2010.

Immunex Pty Ltd has a $571,105 (2009: $nil) loan to Neomune Pty Ltd at 30 June 2010.

The parent entity advanced the above loans to subsidiaries and received repayments during the current year (refer cash flow statement). The loans are non-interest bearing, unsecured, at call and repayable in cash.

Related Parties

Richbourne Consulting Ltd, a company associated with Richard Reavley, was paid US$166,026 consulting fees in the period ended 30 June 2010 (US$214,959 in 2009) prior to Mr Reavley being appointed a director.

Director Remuneration

David Riekie receives a director fee of $62,500 including superannuation from 22 June 2010. There is no fixed term services contract or termination payment agreement with Mr Riekie.

Paul Morgan receives a director fee of $78,500 including superannuation from 22 June 2010. There is no fixed term services contract or termination payment agreement with Mr Morgan.

18. RELATED PARTIES (Continued)

Key management personnel

Disclosures relating to key management personnel are set out in note 21.

19. EVENTS AFTER THE BALANCE SHEET DATE

Since the end of the financial year, the Directors are not aware of any other matters or circumstances that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

20. AUDITORS' REMUNERATION

Current auditors: Ernst and Young (appointed 6 May 2010)
Previous auditors: Johnson Rouke (resigned 6 May 2010)

	CONSOLIDATED		*HAWKLEY OIL AND GAS LIMITED*	
Previous auditors Johnson Rouke (resigned 6 May 2010)	*2010* *$*	*2009* *$*	*2010* *$*	*2009* *$*
Amounts received or due and receivable by the Group's auditors during the year:				
Taxation advice	22,360	-	22,360	-
Audit or review of the financial report of the entity and any other entity in the Group	25,000	-	25,000	26,700
	47,360	-	47,360	26,700
Current auditors Ernst and Young (appointed 6 May 2010)				
Amounts received or due and receivable by the Group's auditors during the year:				
Taxation advice	5,000	-	5,000	-
Accounting advice	30,000		30,000	
Audit or review of the financial report of the entity and any other entity in the Group	45,000	-	45,000	-
	80,000	-	80,000	-
Amounts received as due and receivable by related practices of Ernst & Young (Australia) for:				
Audit services	45,000	-	-	-
	45,000	-	-	-
	125,000	-	80,000	-

There was no remuneration for other services provided by the auditor.

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key Management Personnel Compensation

	HAWKLEY OIL AND GAS LIMITED	
	2010	*2009*
	$	*$*
Short-term employee benefits	205,247	527,820
Post-employment benefits	30,000	20,598
Share-based payment	-	251,145
	235,247	799,563

Equity instrument disclosures relating to key management personnel

Option holdings
The numbers of options over ordinary shares in the Company held during the financial year by each Director of Hawkley Oil and Gas Limited and other key management personnel of the Group, including their personally related parties, are set out below. Note that the amounts shown below are post the 26.67:1 consolidation of issued capital.

2010	*Balance at the start of the year*	*Granted during the year as compensation*	*Exercised during the year*	*Balance on resignation*	*Balance at the end of the year*	*Vested and exercisable at the end of the year*
Directors						
Mr P Morgan	-	-	-	-	-	-
Mr R Reavley	-	-	-	-	-	-
Mr D Riekie	-	-	-	-	-	-
Mr M Bridges	378,703	-	-	378,703	-	-
Mr W Willesee	-	-	-	-	-	-
Mr E de Mori	374,953	-	-	374,953	-	-
Other key management personnel						
Mr I Hobson	-	-	-	-	-	-
Mr R Brown	-	-	-	-	-	-
Dr T Mynott	18,748	-	-	-	18,748	18,748
	772,404	-	-	753,656	18,748	18,748

2009	*Balance at the start of the year*	*Granted during the year as compensation*	*Exercised during the year*	*Balance on resignation*	*Balance at the end of the year*	*Vested and exercisable at the end of the year*
Directors						
Mr D Home	1,500,000	-	-	1,500,000	-	-
Mr M Bridges	100,000	10,000,000	-	-	10,100,000	10,100,000
Mr E de Mori	-	10,000,000	-	-	10,000,000	10,000,000
Mr J Wright	-	50,000	-	50,000	-	-
Mr W Willesee	-	-	-	-	-	-
Dr T Ramsdale	-	50,000	-	50,000	-	-
Other key management personnel						
Dr T Mynott	500,000	-	-		500,000	500,000
	2,100,000	20,100,000	-	1,600,000	20,600,000	20,600,000

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Shareholdings
The numbers of shares in the Company held during the financial year by each Director and other key management personnel of the Group, including their personally related parties, are set out below.

2010	*Balance at the start of year*	*Issued*	*On Exercise of Options*	*Net Change Other*	*Balance on Resignation*	*Balance at the end of year*
Directors						
Mr P Morgan	-	-	-	23,520,819	-	23,520,819
Mr R Reavley	-	-	-	12,760,410	-	12,760,410
Mr D Riekie	-	-	-	-	-	-
Mr M Bridges	26,247	-	-	-	26,247	-
Mr W Willesee	665,734	-	-	-	665,734	-
Mr E de Mori	-	-	-	-	-	-
Other key management personnel						
Mr I Hobson	-	-	-	-	-	-
Mr R Brown	-	-	-	-	-	-
Dr T Mynott	431,946	-	-	-	-	431,946
Total	1,123,927	-	-	36,281,229	691,981	36,713,175

2009	*Balance at the start of year*	*Issued*	*On Exercise of Options*	*Net Change Other*	*Balance on Resignation*	*Balance at the end of year*
Directors						
Mr M Bridges	300,000	-	-	400,000***	-	700,000
Mr E de Mori	-	-	-	-	-	-
Mr W Willesee	-	17,755,113*	-	-	-	17,755,113
Mr D Home	125,000	5,000,000**	-	-	5,125,000	-
Dr T Ramsdale	-	-	-	-	-	-
Dr J Wright	-	-	-	-	-	-
Other key management personnel						
Mr R Brown	-	-	-	-	-	-
Dr T Mynott	3,697,500	4,125,000**	-	3,697,500***	-	11,520,000
Total	4,122,500	26,880,113	-	4,097,500	5,125,000	29,975,113

* Includes 5,255,113 ordinary shares issued upon conversion of converting notes and 12,500,000 ordinary shares issued in lieu of cash payments
** Issued in lieu of cash payments
*** Issued upon take up of rights issue

All equity transactions with Directors and other key management personnel, other than those arising from the remuneration options, have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Loans to key management personnel

There were no loans to key management personnel at any time during the financial period.

22. SHARE BASED PAYMENTS

Employee Share Option Plan

The Group has an Employee Share Option Plan (ESOP) for the granting of non-transferable options to certain Directors, executives, consultants and employees.

Options issued under the ESOP will usually vest when both the following conditions have been met:

(i) 50% on completion of twelve months service; and
(ii) the second 50% if the employee continues to be an employee in the service of the Group for a further twelve months.

Under the plan the Directors have the discretion to alter vesting conditions.

Other relevant terms and conditions applicable to options granted under the ESOP include:
- the exercise price of the options is equal to Hawkley Oil and Gas Limited's IPO price and is payable in cash;
- upon exercise, each option will be settled for one ordinary share in Hawkley Oil and Gas Limited's.

The details of options over ordinary shares outstanding at 30 June 2010 are shown below. There was a consolidation of capital during the year on a 26.67:1 basis. All details of numbers of options shown are on the post consolidation basis. The comparative has been adjusted accordingly:

Grant date	*Expiry date*	*Exercise price*	*Balance at the start of year*	*Granted during the year*	*Exercised during the year*	*Expired/ forfeited during the year*	*Balance at the end of the year*	*Exercisable at the end of the year*
			Number	*Number*	*Number*	*Number*	*Number*	*Number*
Consolidated– 2010								
1 Sept 2006	1 Sept 2010	$5.33	15,000	-	-	-	15,000	15,000
1 Mar 2006	1 Mar 2010	$5.33	28,120	-	-	(28,120)	-	-
22 Nov 2007	21 Nov 2010	$5.33	50,620	-	-	-	50,620	50,620
11 Aug 2008	11 Aug 2011	$5.33	3,750	-	-	-	3,750	3,750
20 Nov 2008	19 Nov 2011	$2.67	37,496	-	-	-	37,496	37,496
22 June 2010	30 June 2012	$0.27	-	2,249,721[1]	-	-	2,249,721	2,249,721

[1] For details of inputs into options granted during the year, see below.

Grant date	*Expiry date*	*Exercise price*	*Balance at the start of year*	*Granted during the year*	*Exercised during the year*	*Expired/ forfeited during the year*	*Balance at the end of the year*	*Exercisable at the end of the year*
Consolidated– 2009								
1 Sept 2006	1 Sept 2010	$5.33	15,000	-	-	-	15,000	15,000
1 Mar 2006	1 Mar 2010	$5.33	28,120	-	-	-	28,120	28,120
22 Nov 2007	21 Nov 2010	$5.33	50,620	-	-	-	50,620	50,620
11 Aug 2008	11 Aug 2011	$5.33	-	3,750	-	-	3,750	3,750
20 Nov 2008	19 Nov 2011	$2.67	-	37,496	-	-	37,496	37,496

The weighted average remaining contractual life of share options outstanding at the end of the 2010 year was 1.95 years (2009: 1.18 years).

Fair value of options granted
The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

22. SHARE BASED PAYMENTS (CONTINUED)

The following table gives the key inputs used in determining the fair value of 14,758,155 options granted for capital raising and 11,248,594 for corporate services. These options are vested and exercisable at year end. The total values of the share based payments were $1,744,413 and $1,329,583 respectively and was recorded in the share based payments reserve at year end.

	22 June 2010
Dividend yield (%)	-
Expected volatility (%)	80
Risk-free interest rate (%)	4.97
Expected life of option (years)	3.61
Option exercise price ($)	0.20
Share price at grant date ($)	0.20
Fair value ($)	0.1444

The expected price volatility is based on the historic volatility of the entity up to the grant date of the options as well as the historic volatility of a number of similar entities (based on a period with a similar life of the options). The fair value of the options granted excludes the impact of any non-market vesting conditions. There were no market conditions.

Shares

During the year 3,749,531 (2009:-) ordinary shares were agreed to be issued to Cygnet Capital in lieu of cash payments for services related to corporate advice and capital raising. As at balance date, the shares issued have not yet been issued and are recorded in the share based payments reserve at $749,906.

On 29 June 2010, the Company issued 10,704,660 shares to repay loans made to Janita Global Limited. The amount of the share based payment made was $2,140,932. The shares were valued at fair value.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

	CONSOLIDATED	
	2010	*2009*
	$	*$*
Options issued for corporate advice	1,329,583	-
Other share options issued	-	108,410
Issue of ordinary shares	749,906	151,375
	2,079,489	259,785

23. COMPANY DETAILS

Registered office	**Principal place of business**
Suite 5, 95 Hay Street	45 Ventnor Avenue
Subiaco WA 6008	West Perth WA 6005

HAWKLEY OIL AND GAS LIMITED
Directors' Declaration
FOR THE PERIOD ENDED 30 JUNE 2010

In accordance with a resolution of the directors of Hawkley Oil and Gas Limited, I state that:

In the opinion of the directors:

a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
   i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
   ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1;
c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and
d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

On behalf of the Board

Richard Reavley
Managing Director
Perth, Western Australia, 30 September 2010

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Independent auditor's report to the members of Hawkley Oil and Gas Limited

Report on the Financial Report

We have audited the accompanying financial report of Hawkley Oil and Gas Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Hawkley Oil and Gas Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of Hawkley Oil and Gas Limited and the consolidated entity at 30 June 2010 and of their performance for the period ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the period ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Hawkley Oil and Gas Limited for the period ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
30 September 2010

ASX Additional Information

The additional ASX information is current as at 24 September 2010.

Substantial shareholders

Shareholder name	Number Held	Percentage
Avenger Investment Holdings	20,822,094	10.01%
Acetone Limited	20,365,420	9.79%
Mr Paul Morgan	18,365,420	8.83%
Ballure Trading Limited	12,135,915	5.84%
ANZ Nominees Limited	11,138,846	5.36%

Top 20 Shareholders

Shareholder name	Number Held	Percentage
Avenger Investment Holdings	20,822,094	10.01%
Acetone Limited	20,365,420	9.79%
Mr Paul Morgan	18,365,420	8.83%
Ballure Trading Limited	12,135,915	5.84%
ANZ Nominees Limited	11,138,846	5.36%
Lextrop Wealth Incorporated	10,182,711	4.90%
Ogden Group Pty Ltd	3,878,149	1.86%
Mr Brian Featherby	3,845,427	1.85%
Mainplay Pty Ltd	3,787,255	1.82%
Liquipure Aust Pty Ltd	3,498,542	1.68%
Dove Nominees Pty Ltd	3,494,377	1.68%
Mr & Mrs RJ Harris	2,763,182	1.33%
Mount Barker Transport	2,423,843	1.17%
Ashbay Holdings Pty Ltd	2,355,975	1.13%
Deck Chair Holdings Pty Ltd	2,346,259	1.13%
HSBC Custody Nominees PTY Ltd	2,100,000	1.01%
Mr & Mrs PJ Burns	1,979,475	0.95%
Mahsor Holdings Pty Ltd	1,931,888	0.93%
Fullerton Private Capital Pty lTD	1,874,766	0.90%
Mr & Mrs GJ Rishworth	1,866,359	0.90%
Total	**131,155,903**	**63.07%**

Range of Holding – ordinary shares	Holders	Shares
1-1,000	129	69,269
1,001-5,000	134	347,279
5,001-10,000	119	1,021,529
10,001 - 100,000	368	18,171,645
100,001 – 9,999,999,999	206	188,346,616
	956	207,956,338

Unmarketable Parcels

There are 220 holders holding less than a marketable parcel of $500 of ordinary shares at a price of 13.5cents per share.

Restricted Securities

There are 71,823,949 ordinary shares and 18,043,896 performance shares subject to escrow until 29 June 2012.

Securities Subject to Voluntary Escrow

There are 46,798,797 ordinary shares subject to voluntary escrow until 29 December 2010.

Unquoted Securities

There are 99 holders of 32,962,904 Performance Shares.

There are 3 holders of 50,620 unlisted options expiring 21 November 2010 exercisable at $5.33

Holders of more than 20%	**Options expiring 21 November 2010**	
Holder name	**Number**	**%**
Donald Home	28,122	55.6%
Tracey Mynott	18,748	37.0%

There are 2 holders of 3,750 unlisted options expiring 11 August 2011 exercisable at $5.33

Holders of more than 20%	**Options expiring 11 August 2011**	
Holder name	**Number**	**%**
Kim Wright	1,875	50%
Tracie Ramsdale	1875	50%

There is 1 holder of 37,496 unlisted options expiring 19 November 2011 exercisable at $2.67

Holders of more than 20%	**Options expiring 19 November 2011**	
Holder name	**Number**	**%**
Cygnet Capital Pty Ltd	37,496	100%

There are 3 holders of 2,249,721 unlisted options expiring 30 June 2012 exercisable at $0.27

Holders of more than 20%	**Options expiring 30 June 2012**	
Holder name	**Number**	**%**
Greenday Corporate Pty Ltd	1,499,813	66.67%

Use of Funds

The Company has used the cash and assets in a form readily convertible to cash at the time of re-admission in a way consistent with its business objectives.

Voting Rights
Each fully paid ordinary share carries voting rights of one vote per share.