STONEHORSE ENERGY

ABN 13 086 972 429

HALF-YEAR REPORT

31 December 2020

Corporate Directory

Directors

Robert Gardner	*Executive Chairman*
David Deloub	*Executive Director*
Jay Stephenson	*Non-executive Director*

Company Secretary

Jay Stephenson

Registered Office

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Facsimile:	+61 (0)8 6141 3599
Email:	info@stonehorseenergy.com.au
Website:	www.stonehorseenergy.com

Share Registry

Computershare Registry Services

Street:	Level 11, 172 St Georges Terrace Perth WA 6000
Postal:	GPO Box D182 Perth WA 6840
Telephone:	1300 787 272 (investors within Australia) +61 (0)8 9323 2000

Securities Exchange

Australian Securities Exchange

Street:	Exchange Plaza Level 10, Central Park 152-158 St Georges Terrace PERTH WA 6000
ASX Code:	SHE

Auditor

Hall Chadwick Audit (WA) Pty Ltd

Street:	283 Rokeby Road SUBIACO WA 6008
Telephone:	+61(0)8 9426 0666

HALF YEAR REPORT
31 DECEMBER 2020

Contents

Directors' Report

Your Directors present their report together with the summary of the financial information of Stonehorse Energy Limited (the **Company** or **Stonehorse**) and its controlled entities (Group) for the half year ended 31 December 2020 and the auditor's report thereon.

1. Directors

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

- Mr Robert Gardner — *Executive Chairman*
- Mr David Deloub — Executive Director
- Mr Jay Stephenson — Non-executive Director

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

2. Company secretary

The following person held the position of Company Secretary at the end of the financial year:

- Mr Jay Stephenson

3. Review of operations

3.1. Operations review

Stonehorse Energy Limited (**ASX: SHE**) (**Stonehorse** or the **Company**) is pleased to present this Directors' report for the half year ended 31ST December 2020.

The overall objective of the Company is to implement its strategy of adopting a flexible approach to building a portfolio of high quality well bore assets with Working Interest percentages reflecting risk appetite and capital availability underpinned by the Step-in Agreement with Brookside Energy Limited (ASX: BRK).

The Step-in Agreement provides the Company with access to a pipeline of well bore opportunities in the Anadarko Basin, including the potential to participate in non-operated wells in the core of the STACK Play and higher-impact wells in the emerging and highly sought after Sycamore-Woodford trend in the SCOOP Play.

CORPORATE ACTIVITIES

The outbreak of COVID-19 continues to impact global economic markets. The directors have reviewed all financial areas which could be impacted by COVID-19 and considered areas of judgement and if additional disclosures are required. The directors have assessed these areas and have determined that there has been no significant impact on the performance of the Group as at 31 December 2020.

Corporately the Group is actively reviewing its non-operational expenses including its corporate overhead and is implementing measures to reduce these costs where appropriate. The Group will continue to provide updates in regard to the impact of COVID-19 on its operations, and work programs.

Directors' Report

OPERATIONAL ACTIVITIES

The Company continues to increase its portfolio of working interests in producing oil and gas wells located in the Anadarko Basin, Oklahoma Both directly and through the Orion Joint Venture alongside Brookside Energy.

On the 14th October the Joint Venture announced that it had successfully closed its third producing property acquisition, the Thelma 1-32 well, including the associated 40 HBP acres and existing infrastructure (the Thelma Well).

The Thelma well is located in Murray County in the southern part of the SCOOP Play, approximately 20 miles east-northeast of Brookside Energy's Jewell DSU The Black Mesa team have identified a number of high potential target formations in the Thelma Well (a vertical well drilled in the early 1990's) including material behind pipe volumes.

Workover operations have already been completed and have delivered an almost seven-fold increase in daily gas production and significantly extended the wells producing life. The costs associated with the acquisition of the well (and the associated acreage) and the cost of the workover, were met by the Joint Venture partners (50/50) in accordance with the terms of the agreement.

On the 25th November the Company provided an update on the Mitchell well with gas sales commencing and the first load of oil expected to be sold in December. This production is important for both the positive impact on cashflows to the Company as well as "holding by production" key acres in the soon to be drilled Jewell Drilling Spacing Unit (DSU).

The first load of oil was subsequently sold on the 2nd December with daily oil production producing a peak rate of over 10 barrels per day. The Company is expecting daily oil and gas production volumes to increase as water levels are reduced further.

On the 1st December the Company announced that it had completed planed workover operations on the Thelma Well. The well was subsequently set to be brought back on line following the completion of production testing.

The Orion Joint Venture continues to work up a pipeline of opportunities to be pursued in the near term. In this regard, the Black Mesa team have identified a number of additional potential acquisition/workover targets within the SWISH AOI that satisfy the Joint Venture's investment hurdles and are continuing to work to advance these opportunities to add to the asset portfolio.

Stonehorse's share of gross revenue from oil and gas sales for the fourth quarter of 2020 averaged US$32,000 per month. The improvement in revenues from the September quarter's average of US$20,000 reflect the recovery of oil and gas process and the increase in production from the Orion JV wells.

CURRENT PORTFOLIO OF OIL AND GAS WELL ASSETS

Stonehorse currently has working interests in eight producing wells including a working interest in three "workover" wells as part of the Orion Joint Venture.

Well Name	Reference Number	Working interest	County, State	Operator
Stonehorse				
Burgess	28-1	96.81%	Ellis,OK	Black Mesa Energy
Sutton	2H-52	25.00%	Hansford, TX	Strat Land Exploration
Bullard	1-18-07UWH	15.60%	Garvin, OK	Rimrock Resources
Henry Federal	1-8-5XH	2.30%	Blaine, OK	Continental Resources
Randolph	1-34-27XHM	0.21%	Blane, OK	Continental Resources
Orion JV				
Newberry	12-1	21.70%	Carter, OK	Black Mesa Energy
Mitchell	12-1	50.00%	Carter, OK	Black Mesa Energy
Thelma	1-32	50.00%	Murray, OK	Black Mesa Energy

3.2. Operating results

The loss of the Group for the half year amounted to $327,696 (2019: $2,406,680), which was expected at the Group's current operating levels.

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

3.3. Financial position

The Group cash balance as at 31 December 2020 was $1,486,125 and had working capital surplus of $1,516,599 (30 June 2020: $1,927,028) and net assets of $3,638,660 (30 June 2020: $3,966,356) as at 31 December 2020.

4. Events subsequent to reporting date

On the 10th February 2021, the Company announced that it has successfully raised A$5.0m (before costs) through a two-tranche placement by issuing a total of 250,000,000 shares at $0.02 per share. Tranche 1 of the Placement was completed on 15 February 2021 raising $2,003,123 before costs. Fund raised through the Placement will be used to acquire a working interest in the proposed Jewell Well, a horizontal oil and gas well to be drilled and completed in Carter County, Oklahoma, USA.

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* (Cth) for the half-year ended 31 December 2020 has been received and can be found on page 4 of the interim financial report.

R. Gardner.

ROBERT GARDNER
Chairman
Dated this Friday, 12 March 2021

AUDITOR'S INDEPENDENCE DECLARATION
STONEHORSE ENERGY LIMITED

In accordance with section 307C of the *Corporations Act 2001*, I provide the following declaration of independence to the directors of Stonehorse Energy Limited.

As lead audit partner for the review of the financial report of Stonehorse Energy Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Hall Chadwick

Hall Chadwick Audit (WA) Pty Ltd
ABN 42 163 529 682

Nikki Shen
Director

Dated 12 March 2021

Consolidated Statement of profit or loss and other comprehensive income
for the period ended 31 December 2020

	Note	2020 $	2019 $
Continuing operations			
Revenue		216,398	282,796
Less: Production costs		(140,031)	(126,142)
Gross profit		76,367	156,654
Government Grant and subsidies		43,684	-
Shareholder loans forgiven		-	266,017
Fair value gain on financial assets		150,000	-
		270,051	422,671
Compliance costs		(19,315)	(20,441)
Employee benefits expenses		(96,175)	(80,631)
Exploration and evaluation expenditure		(20,865)	(6,297)
Interest expense		-	(22,501)
Professional fees		(128,116)	(238,500)
Marketing and investor relations expenses		(25,000)	-
Insurance expense		(21,050)	-
Other expenses		(126,106)	(52,373)
Foreign Exchange expense		(12,685)	(218)
Amortisation expense	10	(148,435)	(210,728)
Goodwill written off	11	-	(2,193,183)
Fair value loss on financial assets		-	(4,479)
Loss before tax		(327,696)	(2,406,680)
Income tax		-	-
Loss from continuing operations		(327,696)	(2,406,680)
Net loss for the period		(327,696)	(2,406,680)
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss attributable to members of the parent entity		(327,696)	(2,406,680)
Loss per share:		¢	¢
Basic loss per share (cents per share)	2	(0.08)	(0.79)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

Consolidated Statement of financial position

as at 31 December 2020

	Note	31 December 2020 $	30 June 2020 $
Current assets			
Cash and cash equivalents	3	1,486,125	2,135,533
Trade and other receivables		10,167	60,515
Financial assets	4	317,933	17,933
Other current assets		20,000	15,000
Total current assets		1,834,225	2,228,981
Non-current assets			
Producing assets	10	2,122,061	2,039,328
Total non-current assets		2,122,061	2,039,328
Total assets		3,956,286	4,268,309
Current liabilities			
Trade and other payables	5	317,626	301,953
Total current liabilities		317,626	301,953
Total liabilities		317,626	301,953
Net assets		3,638,660	3,966,356
Equity			
Issued capital	6	31,606,110	31,606,110
Reserves		459,679	459,679
Accumulated losses		(28,427,129)	(28,099,433)
Total equity / (deficiency)		3,638,660	3,966,356

The statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated Statement of changes in equity

for the period ended 31 December 2020

	Issued Capital $	Accumulated Losses $	Reserves $	Total $
Balance at 1 July 2019	24,648,133	(25,551,960)	-	(903,826)
Loss for the period	-	(2,406,680)	-	(2,406,680)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	(2,406,680)	-	(2,406,680)
Transaction with owners, directly in equity				
Shares issued during the period	4,656,727	-	-	4,656,727
Options issued during the period	-	-	459,678	459,678
Transaction costs on share issue	(133,750)	-	-	(133,750)
Conversion on Convertible Loans	280,418	-	-	280,418
Issue of shares on acquisition of Lone Star Energy Limited	2,110,000	-	-	2,110,000
Balance at 31 December 2019	**31,561,528**	**(27,958,639)**	**459,678**	**4,062,567**
Balance at 1 July 2020	31,606,110	(28,099,433)	459,679	3,966,356
Loss for the period	-	(327,696)	-	(327,696)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	(327,696)	-	(327,696)
Transaction with owners, directly in equity				
Shares issued during the period	-	-	-	-
Transaction costs on share issue	-	-	-	-
Balance at 31 December 2020	**31,606,110**	**(28,427,129)**	**459,679**	**3,638,660**

The statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated Statement of cash flows

for the period ended 31 December 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		216,398	410,703
Payments to suppliers and employees		(528,322)	(1,243,911)
Government grants		43,684	-
Net cash used in operating activities		(268,240)	(833,208)
Cash flows from investing activities			
Payments for financial assets		(150,000)	-
Payments for producing assets	10	(231,168)	(1,662,409)
Net cash used in investing activities		(381,168)	(1,662,409)
Cash flows from financing activities			
Proceeds from issue of shares, net of share issue costs		-	4,656,727
Costs of issue		-	(133,397)
Net cash from financing activities		-	4,523,330
Net (decrease)/increase in cash held		(649,408)	2,027,713
Cash at the beginning of the period		2,135,533	18,172
Cash at the end of the period	3	1,486,125	2,045,885

The statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to the financial statements

for the period ended 31 December 2020

Note 1 Statement of significant accounting policies

These are the condensed financial statements and notes of Stonehorse Energy Limited (the **Company** or **Stonehorse**) and its controlled entities (Group). Stonehorse is a public company incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The financial statements were authorised for issue on 11 March 2021 by the directors of the Company.

a. Basis of preparation

This interim financial report is intended to provide users with an update on the latest annual financial statements of Stonehorse Limited. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in combination with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the half-year.

i. Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

ii. Financial position

The financial statements have been prepared on the basis of historical cost, except where applicable, financial assets which are carried at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

iii. Going Concern

The interim financial report has been prepared on the going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. For the half-year ended 31 December 2020 the Group recorded a loss before income tax expense of $327,696 (2019: $2,406,680) and a net cash outflow from operating activities amounting to $268,240 (2019: $833,208) and had cash available of $1,486,125.

The Company has a solid history of obtaining support from investors, including in very difficult financial markets. The Directors are of the opinion that the Company is a going concern.

On the 10th February 2021, the Company announced that it has successfully raised A$5.0m (before costs) through a two-tranche placement by issuing a total of 250,000,000 shares at $0.02 per share. Tranche 1 of the Placement was completed on 15 February 2021 raising $2,003,123 before costs.

The Company has received confirmation from the appointed broker that commitments of $2,996,877 have been received from unrelated sophisticated and professional investors in respect of tranche 2 of the Placement. Completion of tranche 2 of the Placement is subject to shareholder approval which is expected to be received at the General Meeting in April 2021.

Fund raised through the Placement will be used to acquire a working interest in the proposed Jewell Well, a horizontal oil and gas well to be drilled and completed in Carter County, Oklahoma, USA.

The outbreak of COVID-19 continues to impact global economic markets. The directors have reviewed all financial areas which could be impacted by COVID-19 and considered areas of judgement and if additional disclosures are required. The directors have assessed these areas and have determined that there has been no significant impact on the performance of the Group as at 31 December 2020.

iv. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above. When the Company has less than a majority of the voting rights if an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members are eliminated in full on consolidation.

Changes in the Company's ownership interest in existing subsidiaries

Changes in the Company's ownership interest in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

v. Impairment of Assets

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group's of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

vi. Producing Assets

Producing assets represent the accumulation of all exploration, evaluation and development expenditure incurred in respect of areas of interest in which drilling has commenced or in the process of commencing. When further development expenditure is incurred in respect of mine property after the commencement of production, such expenditure is carried forward as part of the producing asset only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a unit of production basis which results in a write off of the cost proportional to the depletion of the proven and probably mineral reserves.

The net carrying value of each area of interest is reviewed regularly and to the extent to which this value exceeds its recoverable amount, the excess is either fully provided against or written off in the financial year in which this is determined.

vii. Revenue Recognition

The Group currently generates revenue from its revenue interests in production projects. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of oil and gas

Revenue is recognised when the Group is notified of its proportionate share from operators of each production asset project.

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

b. **Critical Accounting Estimates and Judgments**

The critical estimates and judgements are consistent with those applied and disclosed in the 30 June 2020 annual report.

Key Judgments – Producing Assets

In determining the recoverable amount of assets, in the absences of quoted market prices, estimations are made regarding the present value of future cash flows using asset specific discount rates and the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

c. Adoption of new and revised accounting standards

In the half-year ended 31 December 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 July 2020.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and therefore no material change is necessary to Group accounting policies.

Note 2 Earnings per share (EPS)

	31 December 2020 $	31 December 2019 $
a. Loss used in the calculation of basic EPS loss	(327,696)	(2,406,680)

	31 December 2020 No.	31 December 2019 No.
b. Weighted average number of ordinary shares after consolidation outstanding during the half-year used in calculation of basic EPS	400,624,990	305,049,148

	31 December 2020 ¢	31 December 2019 ¢
c. Basic and diluted EPS (cents per share)	(0.08)	(0.79)

Note 3 Cash and cash equivalents

	Note	31 December 2020 $	30 June 2020 $
Cash at bank and on hand		1,486,125	2,135,533

Note 4 Financial assets

	31 December 2020 $	30 June 2020 $
Current		
Investment in listed shares	227,933	17,933
Investment in listed options	90,000	-
	317,933	17,933

a. Stonehorse currently holds 30,000,000 Brookside Energy Limited (BRK) shares and 896,660 Dragon Mountain Gold Limited (DMG) shares. These shares are a financial asset through profit and loss.

b. Stonehorse currently holds 30,000,000 Brookside Energy Limited (BRK) listed options. These options are a financial asset through profit and loss. The options have an exercise price of $0.011 per share and expired 30 June 2022.

Note 5 Trade and other payables

	31 December 2020 $	30 June 2020 $
Current		
Unsecured		
Trade payables	64,006	46,493
Accruals	12,000	14,241
Directors' fees accrual	198,629	191,349
Other	42,991	49,870
	317,626	301,953

Note 6 Issued capital

	Note	31 December 2020 No.	30 June 2020 No.	31 December 2020 $	30 June 2020 $
Fully paid ordinary shares at no par value		400,624,990	400,624,990	31,606,110	31,606,110

a. **Ordinary shares**

	31 December 2020 No.	30 June 2020 No.	31 December 2020 $	30 June 2020 $
At the beginning of the period	400,624,990	51,288,623	31,606,110	24,648,133
Shares issued during the period:				
- Public offer	-	232,836,367	-	4,656,727
- Conversion of convertible note	-	11,000,000	-	325,000
- Shares issued to vendors	-	105,500,000	-	2,110,000
Less: transaction costs	-	-	-	(133,750)
At reporting date	400,624,990	400,624,990	31,606,110	31,606,110

Note 7 Events subsequent to reporting date

On the 10th February 2021, the Company announced that it has successfully raised A$5.0m (before costs) through a two-tranche placement by issuing a total of 250,000,000 shares at $0.02 per share. Tranche 1 of the Placement was completed on 15 February 2021 raising $2,003,123 before costs. Fund raised through the Placement will be used to acquire a working interest in the proposed Jewell Well, a horizontal oil and gas well to be drilled and completed in Carter County, Oklahoma, USA.

Note 8 Commitments and contingences

There is no change in the Group's commitments or contingencies since the half year ended 31 December 2020 to date of this report.

Note 9 Related party transactions

a. **Key management personnel (KMP) compensation**

The totals of remuneration paid to KMP during the half-year are as follows:

	31 December 2020 $	31 December 2019 $
Directors' fees	96,174	74,267
Total	96,174	74,267

Note 10 Producing assets

	31 December 2020 $	30 June 2020 $
Balance at beginning of period	2,039,328	-
Add: Assets acquired as part of acquisition	-	646,280
Add: Working interest purchased during the year	231,168	1,709,256
Less: Amortisation	(148,435)	(316,208)
Total	2,122,061	2,039,328

Note 11 Business Combinations

Acquisition

On 14 August 2019, Stonehorse Energy Limited acquired 100% of the voting shares of Lone Star Energy Limited, a oil and gas shale well operator with wells in Oklahoma, U.S.A. The total cost of the combination was $2,569,679 and consisted of fully paid ordinary and options. The Group issued 105,500,000 ordinary shares with a fair value of $0.02 each and 52,750,000 options at $0.00895.

Consideration transferred	$
Shares Issued at $0.02	2,110,000
Options issued at $0.00895	459,679
Total Consideration	2,569,679

Assets acquired and liabilities assumed at the date of acquisition

	Acquiree's carrying amount before business combination	Fair value adjustment	Fair Value
Cash and cash equivalents	4,053	-	4,053
Trade and other receivables	358,729	-	358,729
Producing assets	646,280	-	646,280
Trade and other payables	(349,962)	-	(349,962)
Loans	(282,604)	-	(282,604)
Goodwill	2,193,183	-	2,193,183
Total Consideration	2,569,679	-	2,569,679

Goodwill arising on acquisition

The goodwill of $2,193,183 was written off to the profit and loss statement in the prior period.

Note 12 Operating segments

a. Identification of reportable segments

Stonehorse Energy Limited operates predominantly in one industry being the oil and gas industry in the USA.

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

The Group is managed primarily on the basis of its oil and gas interests in the USA and its corporate activities in Australia. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

Types of reportable segments

a) Oil and gas exploration: Segment assets, including acquisition cost of exploration licenses and all expenses related to the projects in the USA are reported on in this segment.
b) Corporate, including treasury, corporate and regulatory expenses arising from operating an ASX listed entity. Segment assets, including cash and cash equivalents, and investments in financial assets are reported in this segment.

Basis of accounting for purposes of reporting by operating segments.

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct link between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

31 December 2020	Corporate $	Oil and Gas & Other US entities $	Total $
(i) Segment performance			
Segment revenue	-	216,398	**216,368**
Segment results	(177,656)	(150,040)	**(327,696)**
Included within segment result:			
- Amortisation expense	-	148,435	**148,435**
Segment assets	1,788,091	2,168,195	**3,956,286**
Segment liabilities	317,626	-	**317,626**

31 December 2019	Corporate $	Oil and Gas & Other US entities $	Total $
(i) Segment performance			
Segment revenue	1	282,796	**282,797**
Segment results	(2,563,334)	156,654	**(2,406,680)**
Included within segment result:			
- Interest Revenue	1	-	**1**
- Drawdown facility interest expense	-	-	**-**
Segment assets	2,101,474	2,312,422	**4,413,896**
Segment liabilities	307,909	43,420	**351,329**

Directors' Declaration

The Directors of Stonehorse Energy Limited declare that:

1. The condensed financial statements and notes, as set out on pages 9 to 16, are in accordance with the *Corporations Act 2001* and:

    (a) comply with Accounting Standard AASB 134: *Interim Financial Reporting*; and

    (b) give a true and fair view of the financial position as at 31 December 2020 and of the performance for the half-year ended on that date of the Group.

2. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

R. Gardner.

ROBERT GARDNER
Chairman

Dated this Friday, 12 March 2021

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF STONEHORSE ENERGY LIMITED

Report on the half-year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Stonehorse Energy Limited (the Company) and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' responsibility for the half-year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Hall Chadwick

Hall Chadwick Audit (WA) Pty Ltd
ABN 42 163 529 682

NS

Nikki Shen
Director

Dated 12 March 2021