STONEHORSE ENERGY

ABN 13 086 972 429

ANNUAL REPORT

30 June 2021

Corporate Directory

Directors

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

Company Secretary

Jay Stephenson

Registered Office

Street:	Suite 4, 182 Claisebrook Road
	Perth WA 6000
Postal:	PO Box 52
	WEST PERTH WA 6872
Telephone:	+61 (0)8 6141 3500
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, AUSTRALIA
Telephone:	+61(0)8 9426 0666

ANNUAL REPORT
30 JUNE 2021

Contents

Directors' Report

Your Directors present their report together with the summary of the financial information of Stonehorse Energy Limited (**ASX: SHE**) (**the Company**) and its controlled entities (**the Group**) for the financial year ended 30 June 2021 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. For additional information of Directors including details of the qualifications of Directors please refer to paragraph 9 Information on directors of this Directors' Report.

2. Company secretary

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

- Mr Jay Stephenson — Please refer to paragraph 9 Information on directors.

3. Nature of operations and principal activities

The Company) is an Australian based Exploration and Production (E&P) energy company. Its overall objective is to implement its strategy of building a portfolio of geographically and geophysically diverse, high quality well bore assets with Working Interest (WI) percentages reflecting risk appetite and capital availability.

4. Dividends paid or recommended

There were no dividends paid or recommended during the financial year ended 30 June 2021.

5. Review of Operations

5.1. Operations review

The Group continues to implement its stated strategy of adopting a flexible approach to building a portfolio of high-quality oil and gas production assets with working interest percentages reflecting risk appetite and capital availability.

a. Corporate Activities and Response to Covid-19

On 10 February 2021, the Company announced that it has successfully raised A$5,000,000 (before costs) through the issue of 250,000,000 fully paid ordinary shares at an issue price of $0.02 per share to sophisticated investors in Australia (Placement). The 100,156,175 shares in Tranche 1 of the placement were issued on 15 February 2021. Tranche 2 was completed on 9 April 2021 with the issue of 154,843,810 shares.

The new shares to be issued under the Placement ranks equally with existing shares in the Company. Investors received 1 Option for every 2 Placement Shares subscribed with a strike price of $0.04, expiring 2 years from the issue date. Monies raised through the Placement were used to acquire 50% of available Working Interest in the Jewell Well, a high impact horizontal oil and gas well to be drilled and completed in Carter County, Oklahoma, USA.

On 6 April 2021, a General Meeting was held by the Company to ratify Tranche 1 of the Placement shares, approve the issue of Tranche 2 of the Placement shares, approve the issue of Placement options and Broker options pertaining to the A$5,000,000 placement announced in February 2021.

All resolutions were subsequently passed by poll and the summary of results set out in the ASX announcement dated 6 April 2021.

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 30 June 2021.

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

b. Existing Business Activities

Over the financial year the Company continued to increase its investment in producing oil and gas wells located in the continental US as well as focusing on identifying opportunities to diversify its investment portfolio.

On 31 January 2021, the Company announced that the Thelma well had been brought on production with an initial production (**IP**) rate of barrels of oil per day with the first load of 313 barrels of oil sold on the 30th December 2020. In addition to the production volumes, the behind pipe potential remains in the well with numerous formations along pipe yet to be tested. A further 40 “held by production” acres have been acquired that are contiguous to the Thelma well, giving the Joint Venture the option to drill further low-cost vertical wells in the immediate area.

On 22 February 2021, the Company announced that following its recent share placement, the Company has accepted the offer to step-in for up to 50% Working Interest in the high impact Jewell well located in the Anadarko basin in Oklahoma USA.

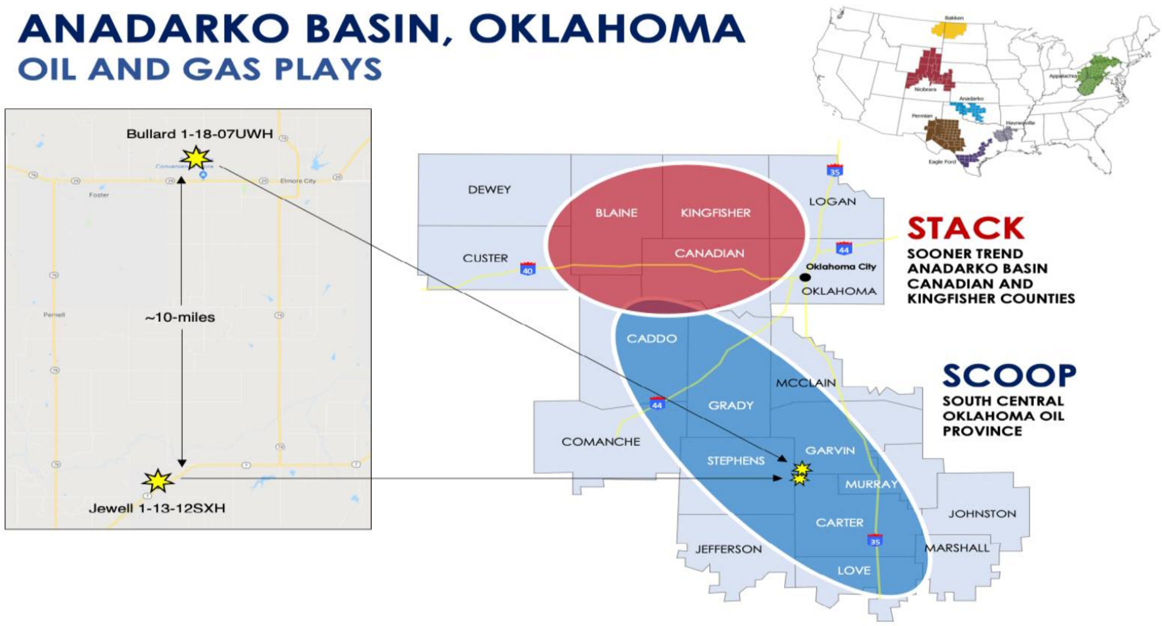

Figure1. Map of the Jewell and Bullard well locations.

A number of horizontal wells operated by some of the major US shale oil and gas operators are in close proximity to the Jewell location and generating impressive production numbers. Drilling and Completion contractors were to be subsequently engaged with mobilisation and site preparation commenced immediately.

Early in the second quarter of 2021, the Company announced that Latshaw Drilling Company had been contracted to supply and operate one of its rigs for the drilling of the Jewell well under the supervision of the Operator Black Mesa Energy. Construction of an all-weather multi-well pad and access road was completed with the hole for the conductor casing drilled and conductor casing set.

In May 2021, the Company announced that the Jewell well was successfully spudded and drilled in the vertical section to a depth of approximately 6,850 feet. The drill string was subsequently withdrawn from the hole and the well was prepared to receive intermediate casing. Drilling continued in the horizontal section of the wellbore with numerous oil and gas “shows” observed as drilling progressed. These results were consistent with expectations and supported reported production in recently drilled third party wells operating in close vicinity.

In June 2021, the Company advised that drilling operations had been completed with the Jewell Well reaching a total depth of 14,100 feet. The production casing was subsequently laid, set and cemented in the lateral section of the well with the successful completion of this stage significantly de-risking the project. The drilling rig was released and had commenced demobilisation in preparation for the arrival and deployment of the well stimulation equipment. Works then commenced on surface production facilities including the tank battery, oil and gas separators and gas lines as well as construction of a 2,700-foot 6-inch gas line from the well location to a tie-in point on a nearby gas sales line.

Directors' Report

Construction of the surface facilities required to accommodate oil and gas production from the Jewell well was completed in July 2021 including the setting and plumbing of the tank battery and separators. The Jewell well operator, Black Mesa Energy subsequently executed a Master Services Agreement with Denver based Liberty Oilfield Services, a leading North American oilfield services company. The contract is to supply and operate the equipment and personnel to enable the completion of the Jewell well under the supervision of the Black Mesa team. The personnel and equipment were expected on site by the end of July 2021 to commence completion operations, with production and sales to follow imminently.

Figure 2. Jewell Well production facilities (tank battery and separators).

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.

The Company's share of gross production revenue from oil and gas sales for the 2020-2021 averaged US$42,000 per month. The improvement in revenues over the second half of this financial year reflects the recovery of energy prices over the past 12 months and increased production to the portfolio.

Directors' Report

c. Current Portfolio of oil and gas well assets

The Company currently has non operated working interests in eleven wells including the high impact Jewell well located Carter County, Oklahoma and operated by Black Mesa Energy.

Well Name	Refence 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%	Blaine, OK	Continental Resources
Randolph	3-34-27XHM	0.21%	Blaine, OK	Continental Resources
Randolph	4-34-27XHM	0.21%	Blaine, OK	Continental Resources
Jewell	1-13-12 SXH	41.50%	Carter, OK	Black Mesa Energy
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

Table 1. Current portfolio of non-operated working interests in oil and gas wells.

5.2. Operating results

The loss of the Group for the year amounted to $203,817 (2020: $2,547,474).

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. Details of the Company's assessment in this regard can be found in Note 18.1 Basis of preparation**.**

5.3. Financial position

As at 30 June 2021, the Group's cash and cash equivalents increased by $1,080,741 from $2,135,533 at 30 June 2020 to $3,254,023 and had working capital of $4,772,057 (June 2020: $1,927,028).

6. Significant changes in state of affairs

Other than referred to in section 5 Review of Operations, no significant changes in the state of affairs of the Group occurred during the financial year.

7. Events subsequent to reporting date

On 4 August 2021, the Company issued 28,835,312 fully paid ordinary shares upon the exercise of options, at an issue price of A$0.025 per share.

On 14 September 2021, the Company announced that Commercial production and sales from the Jewell well have now been established during the early part of flowback and stimulation fluid recovery with material volumes of oil and gas having been sold. The Jewell Well is producing premium light sweet crude and liquids rich gas. Oil and gas sales will continue as flowback operations continue, and the company will report an IP24 (peak rate), IP30 and IP90 rates as these outcomes are achieved.

On 14 September 2021, the Company announced that it has elected to participate in a 0.21% working interest in two in-fill Meramec wells to be drilled and operated by Continental Resources and located in Blaine County in the southern STACK Play in the Anadarko Basin. The Company’s current minority working interest in the Randolph 1-34-27XHM well acquired in January 2020 has contributed ~A$30,000 of operating revenue to the company’s results to date. The Company is expecting each of these additional wells to perform similarly.

There are no other significant events subsequent to reporting date that are not covered in this Directors' Report or within the financial statements at Note 11 Events subsequent to reporting date on page 34.

8. Likely developments

Other than matters referred to in sections 3 and 5.1 of this Directors' Report, no other likely developments, future prospects and business strategies of the operations of the Group and the expected results of those operations have been included in this report as the Directors believe that the inclusion of such information would be likely to result in unreasonable prejudice to the Group.

9. Information on directors

Mr Robert Gardner	Chairman (Executive) – Appointed 29 September 2010
Experience and Qualifications	Mr Gardner is a Perth based business proprietor, with over 28 years' experience in the mining industry. Mr Gardner has developed a number of projects that are now major assets of ASX listed companies and has extensive experience in the China region. Mr Gardner is also a major shareholder in the Company.
Interest in Shares and Options	54,103,750 ordinary Shares and 15,000,000 Options exercisable at $0.025 expiring on 9 August 2021 in Stonehorse Energy Limited [Formerly Nickelore Limited)
Directorships held in other listed entities	Executive Chairman of Dragon Mountain Gold Limited, from October 2010 to present.
Mr David Deloub	Managing Director (Executive) - Appointed 1 December 2017
Experience and Qualifications	Mr Deloub has over 30 years of experience in the finance and corporate sectors and holds a degree in economics and post graduate qualifications in banking and finance. Mr Deloub was a director of Patersons Capital Partners, a boutique advisory firm focusing on strategic and financial advice to ASX listed small cap companies. He has considerable corporate finance, business development, management and operational experience in Australia, the United States and Africa.
Interest in Shares and Options	Currently holds no ordinary Shares in Stonehorse Energy Limited
Directorships held in other listed entities	Mr Deloub also holds or has held the following directorships over the past three years: Executive Director of Avira Resources Limited and Non-Executive Director of Black Mesa Energy Limited. In the past Mr DeLoub has been a Non-Executive Chairman of Minquest Limited (September 2011 to January 2016) and Executive Director of Merah Resources Limited.
Mr Jay Stephenson	Director (Non-executive) and Company Secretary – Appointed as Director 1 July 2011
Experience and Qualifications	Mr Stephenson has been involved in business development for over 30 years, including approximately 26 years as Director, Chief Executive Officer, and Company Secretary of various listed and unlisted entities in resources, investments, IT, manufacturing, wine, hotels and property. He has been involved in business acquisitions, mergers, initial public offerings, capital raisings, and business restructuring, as well as managing all areas of finance for companies. Mr Stephenson holds an MBA, FCPA, CMA, FCIS, FGIA, and MAICD.
Interest in Shares and Options	2,255,208 ordinary Shares in Stonehorse Energy Limited [Formerly Nickelore Limited).
Directorships held in other listed entities	Mr Stephenson also holds or has held the following directorships over the past three years: Non-Executive Director of and Dragon Mountain Gold Limited since July 2011, Non-Executive Director of Strategic Minerals Corporation NL since 2009. In the past three years, Mr Stephenson has been a Non-Executive Director of Fiji Kava Limited since - January 2019 to August 2020, Non-Executive Director of Doray Mining Limited - August 2009 to April 2019, Chairman, Non-Executive Director of Auctus Alternative Investments Limited February 2011 – March 2019, Non-Executive Director of Drake Resources Limited – 2005 to December 2017, Non-Executive Director of Blina Minerals Limited - October 2016 to April 2019,

10. Meetings of directors

During the financial year, three meeting of Directors (including committees of Directors) were held. Attendances by each Director during the year are stated in the following table.

<table>
<tr><th></th><th colspan="8">COMMITTEE MEETINGS</th></tr>
<tr><th></th><th colspan="2">DIRECTORS' MEETINGS</th><th colspan="2">DUE DILIGENCE COMMITTEE</th><th colspan="2">REMUNERATION COMMITTEE</th><th colspan="2">AUDIT COMMITTEE</th></tr>
<tr><th></th><th>Number eligible to attend</th><th>Number Attended</th><th>Number eligible to attend</th><th>Number Attended</th><th>Number eligible to attend</th><th>Number Attended</th><th>Number eligible to attend</th><th>Number Attended</th></tr>
<tr><td>Robert Gardner</td><td>3</td><td>3</td><td colspan="6" rowspan="4">At the date of this report, the Remuneration Committee, Audit Committee and Nomination Committee comprise the full Board of Directors. The Directors believe the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of these separate committees. Accordingly, all matters capable of delegation to such committees are considered by the full Board of Directors.</td></tr>
<tr><td>Jay Stephenson</td><td>3</td><td>3</td></tr>
<tr><td>David Deloub</td><td>3</td><td>3</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

11. Indemnifying officers or auditor

11.1. Indemnification

The Company entered into an Agreement with each Director of the Company indemnifying them against liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, with the exception of conduct involving a wilful breach of duty or improper use of information to gain a personal advantage. This agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has not entered into any agreement with its current auditors indemnifying them against any claims by third parties arising from their report on the financial report.

11.2. Insurance premiums

Since the end of the previous financial year the Company paid insurance premiums of $35,000 in respect of Directors and Officers liability insurance contracts for current and former Directors and Officers of the Company.

12. Options

12.1. Unissued shares under option

At the date of this report, there were 336,595,350 un-issued ordinary shares of Stonehorse Energy Limited under option (listed or unlisted) (2020: 86,595,350).

No person entitled to exercise the option has or has any right by virtue of the option to participate in any share issue of any other body corporate.

12.2. Shares issued on exercise of options

No ordinary shares were issued by the Company as a result of the exercise of options during or since the end of the financial year.

13. Environmental regulations

The Group’s operations are subject to environmental regulations in relation to its exploration activities. The Directors are not aware of any outstanding breaches.

The Directors have considered the enacted National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduced a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act has no effect on the Group for the current, nor subsequent, financial year. The Directors will reassess this position as and when the need arises.

14. Proceedings on behalf of company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

15. Auditor's independence declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* (Cth) for the year ended 30 June 2021 has been received and can be found on page 13 of the annual report.

16. Remuneration Report (Audited)

16.1. Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key Management Personnel (**KMP**) have authority and responsibility for planning, directing and controlling the activities of the Group. KMP comprise the directors of the Group.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives.

To this end, the Group embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract qualified and experienced executives;
- Link executive rewards to length of service, experience and overall performance of the Group; and
- Equity participation is a cost effective and efficient incentive given the Group's pre-production status.

The Board of Stonehorse Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and Directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

Shares and options may only be issued to directors subject to approval by shareholders in a general meeting.

The Board has no established retirement or redundancy schemes.

The remuneration structure for KMP is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Group. The contracts for service between the Group and KMP are on a continuing basis, the terms of which are not expected to change in the immediate future.

The Board determines the proportion of fixed and variable compensation for each KMP.

Director's fees are reviewed annually by the Board. No termination payments are payable to Non-Executive Directors.

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior management remuneration is separate and distinct.

a. Fixed Remuneration

Generally, compensation is provided by the Group to its executive officers by way of salary and share option grants. The objective is to ensure that executive compensation is fair and reasonable in order to attract and retain qualified and experienced executives.

Fixed remuneration consists of base cash remuneration and statutory superannuation entitlements. Longer term discretionary remuneration consists of share option grants. Remuneration levels are based on an overall assessment of both individual and Group performance.

The Group believes that encouraging its executives and employees to become shareholders is the best way of aligning their interest to those of its shareholders. In addition, equity participation is a cost effective and efficient incentive as compared to cash bonuses or increased remuneration, particularly given the Group's pre-production status. Accordingly, all executives and employees are entitled to participate in the Group's equity incentive scheme. Generally, the ability to exercise an option is conditional upon the holder remaining in the Group's employment. There are presently no other non-cash benefits available to Directors or employees. There is no separate profit-sharing or bonus plan.
The contracts for service between the Group and Directors and executives are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement, Directors and executives are paid employee benefit entitlements accrued to date of retirement. The Group may terminate the contracts without cause by providing one month's written notice. Termination payments (if applicable) are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Group can terminate employment at any time.

b. Performance Based Remuneration – Short-term and long-term incentive structure

The Board will review executive packages annually by reference to the Group's performance and executive performance and comparable information from industry sectors using independent external advice where appropriate.

- Short-term incentives

  No short-term incentives in the form of cash bonuses were granted during the year.

- Long-term incentives

  No long-term incentives in the form of cash bonuses were granted during the year.

c. Service Contracts

The employment conditions of the executive director, Mr David Deloub and other KMP are formalised in contracts of employment. Terms of employment contracts are structured to industry standards including normal provisions for termination and notice periods.

d. Non-executive Directors

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

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Each Non-Executive Director receives a fee for being a Director of the Group. No additional fees are paid for participation on subcommittees, such as the Audit Committee. Non-Executive Directors are encouraged by the Board to hold shares in the Group.

Accordingly, they are entitled to participate in equity incentive schemes offered by the Group.

Total fees for the Non-Executive Directors for the financial year were $43,800 (2020: $82,083).

e. Engagement of Remuneration Consultants

During the financial year, the Group did not engage any remuneration consultants.

f. Relationship between Remuneration of Key Management Personnel and Shareholder Wealth

During the Group's development phases of its business, the Board anticipates that the Group will retain earnings (if any) and other cash resources for the development of its projects. Accordingly, the Group does not currently have a policy with respect to the payment of dividends and returns of capital. Therefore, there was no relationship between the Board's policy for determining, or in relation to, the nature during the current and previous financial years.

The Board did not determine the nature and amount of remuneration of the KMP by reference to changes in the price at which shares in the Company traded between the beginning and end of the current and previous financial years. However, where the Directors of the Company receive incentive options, such options generally would only be of value if the Company's share price increased sufficiently to warrant exercising the incentive options.

g. Relationship between Remuneration of Key Management Personnel and Earnings

The Company currently does not expect to be undertaking profitable operations (other than by way of material asset sales, none of which is currently planned) until sometime after the successful commercialisation, production and sales of commodities from its projects. Accordingly, the Board does not consider earnings during the current and previous financial years when determining the nature and amount of remuneration of KMP.

16.2. Remuneration Details for the Year Ended 30 June 2021

There were no cash bonuses paid during the year and there are no set performance criteria for achieving cash bonuses.

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the KMP of the Group**:**

2021 *Key Management Personnel*	Short-term benefits				Post-employment benefits	Long-term benefits	Equity-settled share-based payments		Total
	Salary, fees and leave	Bonuses	Non-monetary	Other	Super-annuation	Other	Equity	Options	
	$	$	$	$	$	$	$	$	$
R Gardner	50,000	-	-	-	4,750	-	-	-	54,750
J Stephenson	40,000	-	-	-	3,800	-	-	-	43,800
D Deloub	90,000	-	-	-	8,550	-	-	-	98,550
	180,000	-	-	-	17,100	-	-	-	197,100

2020 *Key Management Personnel*	Short-term benefits				Post-employment benefits	Long-term benefits	Equity-settled share-based payments		Total
	Salary, fees and leave (Accrued)	Bonuses	Non-monetary	Other	Super-annuation	Other	Equity	Options	
	$	$	$	$	$	$	$	$	$
R Gardner	43,750	-	-	-	4,156	-	-	-	47,906
J Stephenson	38,333	-	-	18,000	3,642	-	-	-	59,975
D Deloub	93,750	-	-	-	8,906	-	-	-	102,656
	175,833	-	-	18,000	16,704	-	-	-	210,537

Directors' report

16.3. Service Agreements

- **Robert Gardner:** Mr Gardner was appointed as Non-Executive Chairman on 1 October 2010. Base remuneration is $50,000 per annum. No termination payments are applicable.
- **David Deloub:** Mr Deloub was appointed as Non-Executive Director on 1 December 2017 and became Managing Director when the company re-quoted on ASX in August 2019. Mr Deloub contract was amended to $90,000 per annum, effective when the Company was re-quoted on ASX on 16 August 2019 until further notice. No termination payments are applicable**.**
- **Jay Stephenson:** Mr Stephenson was appointed as Non-Executive Director and Company Secretary on 1 July 2011. Mr Stephenson's contract was amended to $40,000 per annum, effective 16 August 2019 until further notice. No termination payments are applicable.

16.4. Share-based compensation

a. Director and Key Management Personnel Options

15,000,000 on issue as at 30 June 2021 to Directors or KMP (2020: 15,000,000).

b. Share-based Payments

No options were granted as remuneration during the year to Directors or KMP.

16.5. Key management personnel equity holdings

a. Fully paid ordinary shares of Stonehorse Energy Limited held by each KMP

30 June 2021	Balance at start of year No.	Received during the year as compensation No.	Received during the year on the exercise of options No.	Other changes during the year No.	Balance at end of year No.
Robert Gardner	54,103,750	-	-	-	54,103,750
Jay Stephenson	2,255,208	-	-	-	2,255,208
David Deloub	-	-	-	-	-
	56,358,958	-	-	-	56,358,958

30 June 2020	Balance at start of year No.	Received during the year as compensation No.	Received during the year on the exercise of options No.	Other changes during the year No.	Balance at end of year No.
Robert Gardner	14,603,750	-	-	39,500,000	54,103,750
Jay Stephenson	1,630,208	-	-	625,000	2,255,208
David Deloub	-	-	-	-	-
	16,233,958	-	-	40,125,000	56,358,958

(1) Other change during the year relate to shares acquired through the acquisition of Lone Star Energy or taken up in the Prospectus.

Directors' report

b. Options of Stonehorse Energy Limited held by each KMP

15,000,000 options were on issue to Mr Robert Gardner as at 30 June 2021 (2020: 15,000,000) to Directors or KMP.

16.6. Loans to key management personnel

There are no loans made to directors of the Company as at 30 June 2021 (2020: nil).

16.7. Loans from key management personnel

There were no loans from directors as at 30 June 2021 (2020: nil).

16.8. Other transactions with key management personnel

There have been no other transactions involving equity instruments other than those described in the tables above.

END OF REMUNERATION REPORT (audited)

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001* (Cth).

R. Gardner

ROBERT GARDNER
Chairman
Dated this Tuesday, 28 September 2021

AUDITOR'S INDEPENDENCE DECLARATION
STONEHORSE ENERGY LIMITED

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

As audit partner of Stonehorse Energy Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

- any applicable code of professional conduct in relation to the audit.

Hall Chadwick

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

Nikki Shen
Director

Dated 28 September 2021

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2021

	Note	2021 $	2020 $
Continuing operations			
Revenue	1.1	673,250	559,804
Production cost		(310,559)	(282,199)
Gross Profit		362,691	277,605
Other income	1.2	1,049,878	247,683
		1,412,569	525,288
Compliance costs		(108,218)	(39,873)
Computers and communications		(2,669)	(10,034)
Employee benefits expenses	2.1	(197,100)	(101,104)
Exploration and evaluation expenditure		(449,256)	(9,172)
Interest expense		-	(22,500)
Professional fees		(250,680)	(278,357)
Marketing and investor relations expenses		(31,144)	-
Other expenses		(271,902)	(92,464)
Foreign Exchange Expense		-	(9,897)
Amortisation Expense		(305,417)	(316,208)
Goodwill written off	3.1	-	(2,193,153)
Loss before tax		(203,817)	(2,547,474)
Income tax	4.2	-	-
Loss from continuing operations		(203,817)	(2,547,474)
Net loss for the year		(203,817)	(2,547,474)
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		(203,817)	(2,547,474)
Loss per share:		¢	¢
Basic loss per share (cents per share)	17.3	(0.04)	(0.69)

The consolidated 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 30 June 2021

	Note	2021 $	2020 $
Current assets			
Cash and cash equivalents	5.1	3,254,023	2,135,533
Trade and other receivables	5.2	29,670	60,515
Financial assets	5.3	1,035,000	17,933
Other current assets	5.4	829,273	15,000
Total current assets		5,147,966	2,228,981
Non-current assets			
Exploration and evaluation assets	6	1,582,873	-
Producing assets	7	2,107,609	2,039,328
Total non-current assets		3,690,482	2,039,328
Total assets		8,838,447	4,268,309
Current liabilities			
Trade and other payables	5.5	375,909	301,953
Total current liabilities		375,909	301,953
Total liabilities		375,909	301,953
Net assets		8,462,539	3,966,356
Equity			
Issued capital	8.1	34,784,498	31,606,110
Reserves	8.2	1,981,291	459,679
Accumulated losses		(28,303,250)	(28,099,433)
Total equity		8,462,539	3,966,356

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

Consolidated statement of changes in equity

for the year ended 30 June 2021

	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total $
Balance at 1 July 2019		**24,648,133**	**(25,551,959)**	**-**	**(903,826)**
Loss for the year		-	(2,547,474)	-	(2,547,474)
Other comprehensive income for the year		-	-	-	-
Total comprehensive loss for the year		**-**	**(2,547,474)**	**-**	**(2,547,474)**
Transaction with owners, directly in equity					
Shares issued during the year	8.1.1	4,656,727	-	-	4,656,727
Options issued during the period		-	-	459,679	459,679
Transaction costs		(133,750)	-	-	(133,750)
Conversion on Convertible Loans		325,000	-	-	325,000
Issue of shares on acquisition of Lone Star Energy Limited		2,110,000	-	-	2,110,000
Balance at 30 June 2020		**31,606,110**	**(28,099,433)**	**459,679**	**3,966,356**
Balance at 1 July 2020		**31,606,110**	**(28,099,433)**	**459,679**	**3,966,356**
Loss for the year		-	(203,817)	-	(203,817)
Other comprehensive income for the year		-	-	-	-
Total comprehensive loss for the year		**-**	**(203,817)**	**-**	**(203,817)**
Transaction with owners, directly in equity					
Shares issued during the year	8.1.1	5,100,000	-	-	5,100,000
Options issued during the period		-	-	1,521,612	1,521,612
Transaction costs		(1,921,612)	-	-	(1,921,612)
Balance at 30 June 2021		**34,784,498**	**(28,303,250)**	**1,981,291**	**8,462,539**

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

Consolidated statement of cash flows

for the year ended 30 June 2021

	Note	2021 $	2020 $
Cash flows from operating activities			
Receipt from customer		673,250	559,804
Payments to suppliers and employees		(1,444,885)	(1,212,860)
Interest received		351	-
Interest paid		-	(22,500)
Government grants		43,684	-
Net cash used in operating activities	5.1.1	(727,600)	(675,556)
Cash flows from investing activities			
Payments for producing assets		(373,698)	(1,709,256)
Payments for exploration activities		(1,582,873)	-
Prepayments for exploration activities		(809,273)	-
Payments for financial assets		(480,000)	-
Proceeds from sale of financial assets		354,185	-
Net cash used in investing activities		(2,891,659)	(1,709,256)
Cash flows from financing activities			
Proceeds from issue of shares		5,000,000	4,656,727
Costs of issue		(300,000)	(133,750)
Net cash from financing activities		4,700,000	4,522,977
Net increase in cash held		1,080,741	2,138,165
Effect of exchange rate fluctuations on cash held		37,749	(20,804)
Cash at the beginning of the year		2,135,533	18,172
Cash at the end of the year	5.1	3,254,023	2,135,533

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

In preparing the 2021 financial statements, Stonehorse Energy Limited has grouped notes into sections under four key categories:

Significant accounting policies specific to each note are included within that note. Accounting policies that are determined to be non-significant are not included in the financial statements.

The financial report is presented in Australian dollars, except where otherwise stated.

Notes to the financial statements

for the year ended 30 June 2021

Section A. HOW THE NUMBERS ARE CALCULATED

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the Group, including:

a) *accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction*

b) *analysis and sub-totals, including segment information*

c) *information about estimates and judgements made in relation to particular items.*

Note 1 Revenue and other income	2021 $	2020 $
1.1 Revenue		
Sale of oil and gas (point in time)	673,250	559,804
Total revenue	673,250	559,804
1.2 Other income		
Increase in fair value of financial assets	642,067	-
Gain on sale of financial assets	249,185	-
Government Grant and subsidies	43,684	-
Loans forgiven	-	216,016
Other income	114,942	31,667
Total other income	1,049,878	247,683

1.3 Accounting Policy

1.3.1 Interest income

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

1.3.2 Revenue – Sale of Oil and Gas

Revenue is measured at fair value of the consideration received. Amounts disclosed as revenue are net of returns, trade allowances and rebates. All revenue is measured at the point in time. Revenue is recognised when the Group is notified of its proportionate share from operators of each production asset project.

1.3.3 Increase in fair value of financial assets

The fair values of financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists, with gains or losses recognised in profit or loss.

1.3.4 Gain on sale of financial assets

Revenue is measured at the difference between net proceeds and carrying value of the asset.

1.3.5 Government Grant and subsidies

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

1.3.6 Loans forgiven

In prior year, a loan payable of $216,016 to a related party (common director - Mr Gardner) was forgiven.

Note 2 Employee benefit expenses	2021 $	2020 $
The following expense items are relevant in explaining the financial performance:		
2.1 Employee benefits		
Fees, wages and salaries and other	197,100	101,104
Total personnel expenses	197,100	101,104

2.2 Accounting Policy

2.2.1 Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions onto a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

2.2.2 Short-term benefits

Liabilities for employee benefits for wages and salaries that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Notes to the financial statements
For the year ended 30 June 2021

Note 3 Other significant items of profit and loss

3.1 Business Combination

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

The options issued expires 2 years from issuance, have an exercise price of $0.025 and valued using the Black Scholes method.

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	358,759	-	358,759
Producing assets	646,280	-	646,280
Trade and other payables	(349,962)	-	(349,962)
Loans	(282,604)	-	(282,604)
Goodwill	2,193,153	-	2,193,153
Total Consideration	2,569,679	-	2,569,679

Goodwill arising on acquisition

The goodwill of $2,193,153 was written off to the profit and loss statement in prior year.

Notes to the financial statements

For the year ended 30 June 2021

Note 4 Income tax	2021 $	2020 $
4.1 Income tax expense / (benefit)		
Current tax	-	-
Deferred tax	-	-
	-	-
4.2 Reconciliation of income tax expense to prima facie tax payable		
The prima facie tax payable / (benefit) on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie tax on operating loss at 26% (2020: 27.5%)	(52,992)	(700,555)
Add / (Less) tax effect of:		
• Capital raising costs	-	(36,781)
• Non-assessable income	-	(59,404)
• Non-deductible expenses	-	603,117
• Other timing differences	14,448	-
• Deferred tax asset not brought to account – tax losses	38,545	193,623
Income tax expense / (benefit)	-	-
The applicable weighted average effective tax rates attributable to operating loss are as follows	26%	27.5%
Balance of franking account at year end	Nil	Nil
4.3 Deferred tax assets		
Tax losses	7,148,457	7,520,101
Other timing differences	162,210	186,849
	7,310,667	7,706,949
Set-off deferred tax liabilities	-	-
Net deferred tax assets	7,310,667	7,706,949
Less deferred tax assets not recognised	(7,310,667)	(7,706,949)
Net tax assets	-	-
4.4 Tax losses and deductible temporary differences		
Unused tax losses and deductible temporary differences for which no deferred tax asset has been recognised, that may be utilised to offset tax liabilities:		
• Deductible temporary differences	162,210	186,849
• Revenue losses	4,125,174	4,322,395
• Capital losses	3,023,284	3,197,705
	7,310,667	7,706,949.

Notes to the financial statements

for the year ended 30 June 2021

Note 4 Income tax (cont.)

The Group has an accumulated estimated tax losses and deductible temporary differences of $27,494,097. Utilisation of the carried forward tax losses and deductible temporary differences is subject to satisfaction of the Continuity of Ownership Test (COT) or, failing that, the Same Business Test (SBT).

As business combination occurred during the year, management is currently in the process of assessing if the above disclosed estimated tax losses and deductible temporary differences of $27,494,097 will satisfy the relevant tests and continue to be carried forward within the Group.

Potential deferred tax assets attributable to tax losses have not been brought to account at 30 June 2021 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- the Group continues to comply with conditions for deductibility imposed by law; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

Notes to the financial statements

for the year ended 30 June 2021

Note 4 Income tax (cont.)

4.5 **Accounting Policy**

4.5.1 Income Tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items recognised outside profit or loss.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised:

- When the deferred tax liability arises from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference arises from the initial recognition of goodwill; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised, except:

- When the deductible temporary difference giving rise to the asset arises from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither accounting profit nor taxable income; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Notes to the financial statements
for the year ended 30 June 2021

Note 5 Financial assets and financial liabilities

5.1 Cash and cash equivalents

	2021 $	2020 $
Cash at bank and in hand	308,924	330,745
Trust account	2,945,099	1,804,788
	3,254,023	2,135,533

5.1.1 Cash Flow Information

	2021 $	2020 $
Reconciliation of cash flows used in operations to loss after income tax		
Loss after income tax	(203,817)	(2,547,474)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss from ordinary activities:		
(Increase) in fair value of financial assets	(642,067)	-
(Gain) on sale of financial assets	(249,185)	-
Amortisation expense	305,417	-
Loan forgiven	-	(216,016)
Goodwill impairment	-	2,193,153
Others written off	(37,749)	(31,667)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables and prepayments	25,845	(11,143)
Increase/(decrease) in trade and other payables	73,956	(62,409)
Cash out flow used in operations	(727,600)	(675,556)

5.1.2 Credit Standby Facilities and Non-Cash Investing and Financing Activities

The Group has no credit standby facilities nor non-cash investing and financing activities.

5.1.3 Accounting Policy

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three (3) months or less.

Notes to the financial statements

for the year ended 30 June 2021

Note 5 Financial assets and financial liabilities (cont.)

5.2 Trade and other receivables

	2021 $	2020 $
Current		
Other	29,670	60,515
	29,670	60,515

5.2.1 The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 9 Financial risk management on page 31. No receivables were past due or impaired.

5.2.2 Accounting Policy

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant country's taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (or jurisdictional equivalent) is included as a current asset or liability in the balance sheet.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Trade and other receivables are stated at amortised cost. Receivables are usually settled within 30 to 90 days.

Collectability of trade and other debtors is reviewed on an ongoing basis. An impairment loss is recognised for debts which are known to be uncollectible. An impairment provision is raised for any doubtful amounts.

5.3 Financial assets

		2021 $	2020 $
Current			
Brookside Energy Limited (**BRK**) shares	5.3.1	1,035,000	-
Dragon Mountain Gold Limited (**DMG**) shares	5.3.1	-	17,933
		1,035,000	17,933

5.3.1 Stonehorse currently holds 45,000,000 BRK shares and 896,660 DMG shares. The fair value of these fully paid ordinary shares at 30 June 2021 was based on the ASX quoted market value. These shares are classified as Tier 1 financial assets. These shares are a financial asset through profit and loss.

5.3.2 Accounting Policy

5.3.2.1 Recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

5.3.2.2 Measurement

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists, with gains or losses recognised in profit or loss.

5.3.2.3 Impairment

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Notes to the financial statements

for the year ended 30 June 2021

Note 5 Financial assets and financial liabilities (cont.)

5.4 Other current assets

	2021 $	2020 $
Current		
Prepayments for exploration project (Jewell well)	809,273	-
Other prepayments	-	15,000
Term deposit	20,000	-
	829,273	15,000

5.5 Trade and other payables

		2021 $	2020 $
Current			
Unsecured			
Trade payables	5.5.1	16,232	46,493
Accruals	5.5.1	82,309	14,241
Director's fees accrual		228,379	191,349
Other		48,989	49,870
		375,909	301,953

5.5.1 These amounts arise from the usual operating activities of the Group. Trade payables and other payables and accruals, except directors' fees, are outstanding less than 90 days.

5.5.2 The Group 's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 9 Financial risk management on page 31.

5.5.3 Accounting Policy

Trade payables and other payable are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services which are unpaid and stated at their amortised cost. The amounts are unsecured and are generally settled on 30-day terms.

Notes to the financial statements

for the year ended 30 June 2021

Note 6 Exploration and evaluation assets

	2021 $	2020 $
Opening Balance	-	-
Capitalised expenses	1,582,873	-
	1,582,873	-

On 22 February 2021, the Company finalised a step-in agreement for up to 50% of the available working interest in the proposed Black Mesa Energy (a subsidiary of Brookside Energy Limited) operated Jewell well located in the Anadarko Basin in Oklahoma.

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on the successful development and commercial exploitation or sale of the respective areas.

6.1. Accounting policy

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:

a) the rights to tenure of the area of interest are current; and

b) at least one of the following conditions is also met:

1. 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
2. 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 continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching, sampling and other associated activities including 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 (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any).

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

Notes to the financial statements

for the year ended 30 June 2021

Note 7 Producing assets

7 Producing assets	2021 $	2020 $
Balance at beginning of year	2,039,328	-
Add: Assets acquired as part of acquisition	-	646,280
Add: Working interest purchased during the year	231,168	1,709,256
Add: Capitalisation of production expense	142,530	-
Less: Amortisation	(305,417)	(316,208)
	2,107,609	2,039,328

7.1 Estimates and judgment

Assumptions used to carry forward the producing assets

During the year, management has assessed its assets for impairment, in consideration of the Covid-19 pandemic and determined that no provisions are warranted.

The estimation of reserves requires significant management judgment and interpretations of complex geological and geophysical models in order to make an assessment of the size, share, depth and quality of reservoirs and their anticipated recoveries. Estimates have been used to determine the fair value of the oil and gas properties for the purpose of the assessment of depletion and amortisation charges.

7.2 Accounting policy

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 operating wells 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 probable oil 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 filly provided against or written off in the financial year in which this is determined.

Note 8 Equity

8.1 Issued capital	Note	2021 No.	2020 No.	2021 $	2020 $
Fully paid ordinary shares at no par value		655,624,975	400,624,990	34,784,498	31,606,110
8.1.1 Ordinary shares					
At the beginning of the year		400,624,990	51,288,623	31,606,110	24,648,133
Shares issued during the year:					
Placement	8.1.2	249,999,985	232,836,367	5,000,000	4,656,727
Conversion of convertible note		-	11,000,000	-	325,000
Shares issued to vendors		5,000,000	105,500,000	100,000	2,110,000
Less: transaction costs		-	-	(1,921,612)	(133,750)
At reporting date		655,624,975	400,624,990	34,784,498	31,606,110

The holders of ordinary shares are entitled to receive dividends as declared from time to time and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

8.1.2 The Company issued 249,999,985 shares at $0.02 per share as part of capital raising during the year.

8.2 Reserves

	2021 $	2020 $
Share option reserve		
Balance at beginning of year	459,679	-
Share options issued to lead manager for capital raising	1,521,612	-
Share options issued as part of acquisition	-	459,679
	1,981,291	459,679

Accounting Policy

Ordinary issued capital is recorded at the consideration received. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Ordinary issued capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

The Group issued the following options during the year ended 30 June 2021:

Number of Options Issued	Grant Date	Expiry Date	Exercise Price	Total Value	Value per Option
125,000,000	9 April 2021	9 April 2023	$0.040	$1,521,612	$0.0122
125,000,000	9 April 2021	9 April 2023	$0.040	Nil	Nil

Recipient	Expected Volatility	Expected Dividends	Exercise Price	Risk free rate	Underlying share price
Lead Manager	100%	Nil	$0.040	0.07%	$0.028
Investors – free attaching	Nil	Nil	$0.040	Nil	Nil

The fair value of the options at grant date was determined using a Black Scholes pricing method that took into account the exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The table above lists the inputs to the model used for valuation of the unlisted options.

Notes to the financial statements

for the year ended 30 June 2021

SECTION B. RISK

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

Note 9 Financial risk management

9.1 Financial Risk Management Policies

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk, and the management of capital.

The Group's financial instruments consist mainly of deposits with banks, short-term investments, and accounts payable and receivable. The Company does not speculate in the trading of derivative instruments.

A summary of the Group's Financial Assets and Liabilities is shown below:

Financial Assets	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	2021 Total $	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	2020 Total $
Cash and cash equivalents	2,945,099	-	308,924	3,254,023	-	-	2,135,533	2,135,533
Trade and other receivables	-	-	29,670	29,670	-	-	60,515	60,515
Financial assets	-	-	1,035,000	1,035,000	-	-	17,933	17,933
Total Financial Assets	2,945,099	-	1,373,594	4,318,693	-	-	2,213,981	2,213,981
Financial Liabilities								
Trade and other payables	-	-	375,909	375,909	-	-	301,953	301,953
Total Financial Liabilities	-	-	375,909	375,909	-	-	301,953	301,953
Net Financial assets / (liabilities)	2,945,099	-	997,685	3,942,784	-	-	1,912,028	1,912,028

9.2 Specific Financial risk exposures and management

The main risk the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate, foreign currency risk and equity price risk.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework. The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Group's risk profile. This includes assessing, monitoring and managing risks for the Group and setting appropriate risk limits and controls. The Group is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for risk management and associated controls. Instead, the Board approves all expenditure, is intimately acquainted with all operations and discuss all relevant issues at the Board meetings. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively.

i. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

- Credit risk exposures

The credit risk on financial assets, excluding investments, of the Group which have been recognised in the Statement of Financial Position, is the carrying amount, net of any provision for doubtful debts.

Notes to the financial statements

for the year ended 30 June 2021

Note 9 Financial risk management (cont.)

9.2 Specific Financial risk exposures and management (cont.)

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with approved Board policy. Such policy requires that surplus funds are only invested with financial institutions residing in Australia, where ever possible.

Impairment losses

None of the Group's financial assets are past due (2020: $nil). There has been no allowance for impairment in respect of the financial assets of the Group during this year.

ii. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required. Any surplus funds are invested with major financial institutions.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 30 days of the reporting date.

iii. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(1) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is not material to the Group as no debt arrangements have been entered into, and movement in interest rates on the Group's financial assets is not material.

(2) Foreign exchange risk

Foreign exchange risk arises from future commitments, assets and liabilities that are denominated in a currency that is not he functional currency of the Group. The Group deposits are denominated in both US and Australian dollars. Currently, there are no foreign exchange programs in place. The Group treasury function manages the purchase of foreign currency to meet operational and budgetary requirements. The impact of reasonably possible changes in foreign exchange rates for the Group is not material.

(3) Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to securities price risk on investments held for trading or for medium to longer terms.

The investment in listed equities has been valued at the market price prevailing at balance date. Management of this investment's price risk is by ongoing monitoring of the value with respect to any impairment.

Notes to the financial statements
for the year ended 30 June 2021

Note 9 Financial risk management (cont.)

9.2 Specific Financial risk exposures and management (cont.)

iv. Net Fair Values

(1) Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term financial instruments in nature whose carrying value is equivalent to fair value. The investment in a listed entity is carried as described in note 5.3 Financial assets on page 26.

The methods and assumptions used in determining the fair values of financial instruments are disclosed in the accounting policy notes specific to the asset or liability.

(2) Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of the following fair value measurement hierarchy in accordance with AASB 7 Financial Instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

Financial assets are level 1 in the fair value hierarchy.

v. Financial Liability and Asset Maturity Analysis

	Within 1 Year		Total	
	2021	2020	2021	2020
	$	$	$	$
Financial liabilities due for payment				
Trade and other payables	375,909	301,953	375,909	301,953
Total contractual outflows	375,909	301,953	375,909	301,953
Financial assets				
Cash and cash equivalents	3,254,023	2,135,533	3,254,023	2,135,533
Trade and other receivables	29,670	60,515	29,670	60,515
Financial assets	1,035,000	17,933	1,035,000	17,933
Total anticipated inflows	4,318,693	2,213,981	4,318,693	2,213,981
Net (outflow)/inflow on financial instruments	3,942,784	1,912,028	3,942,784	1,912,028

Notes to the financial statements

for the year ended 30 June 2021

Note 10 Capital management

10.1 Capital management policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

As the Group incurs net cash outflows from operations and has large accumulated losses, the primary method used to adjust its capital structure is the issue of new shares. The Group has determined that where possible it will issue ordinary shares to avoid any restrictions on its use of capital or commit to interest payments. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year.

There are no externally imposed capital requirements.

SECTION C. UNRECOGNISED ITEMS

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

Note 11 Events subsequent to reporting date

On 4 August 2021, the Company issued 28,835,312 fully paid ordinary shares upon the exercise of options, at an issue price of A$0.025 per share.

On 14 September 2021, the Company announced that Commercial production and sales from the Jewell well have now been established during the early part of flowback and stimulation fluid recovery with material volumes of oil and gas having been sold. The Jewell Well is producing premium light sweet crude and liquids rich gas. Oil and gas sales will continue as flowback operations continue, and the company will report an IP24 (peak rate), IP30 and IP90 rates as these outcomes are achieved.

On 14 September 2021, the Company announced that it has elected to participate in a 0.21% working interest in two in-fill Meramec wells to be drilled and operated by Continental Resources and located in Blaine County in the southern STACK Play in the Anadarko Basin. The Company’s current minority working interest in the Randolph 1-34-27XHM well acquired in January 2020 has contributed ~A$30,000 of operating revenue to the company’s results to date. The Company is expecting each of these additional wells to perform similarly.

Other than the above, there are no other significant events subsequent to reporting date.

Note 12 Contingent liabilities

The Group has no contingent liabilities (2020: nil).

Notes to the financial statements
for the year ended 30 June 2021

SECTION D. OTHER INFORMATION

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

Note 13 Auditor's remuneration	2021 $	2020 $
Remuneration of the auditor of the Company for:		
Auditing or reviewing the financial reports	49,965	36,000
Other services provided by a related practice of the auditor	9,733	-
	59,698	36,000

Note 14 Operating segments

14.1 Identification of reportable segments

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

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. It 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
Oil and gas exploration: Segment assets, including acquisition cost related to the projects in the USA are reported on in this segment.

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.

14.2 Accounting Policy

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.

14.3 Segment information

	Corporate $	Oil and Gas $	Total $
2021			
Segment performance			
Segment revenue	-	673,250	673,250
Other revenue	944,761	105,117	1,049,878
Segment (loss)/profit	183,217	(387,034)	(203,817)
Included within segment (loss)/profit:			
Exploration and evaluation expenditure	2,250	447,006	449,256
Amortisation expense	-	305,417	305,417
Segment assets	1,393,594	7,444,853	8,838,447
Segment liabilities	(375,909)	-	(375,909)
2020			
Segment performance			
Segment revenue	-	559,804	559,804
Other revenue	247,683	-	247,683
Segment (loss)/profit	(2,739,997)	192,523	2,547,474
Included within segment (loss)/profit:			
Loans forgiven	216,016	-	216,016
Interest expense	-	22,500	22,500
Amortisation expense	-	316,208	316,208
Impairment expense - Goodwill	-	2,193,153	2,193,153
Segment assets	1,903,262	2,365,047	4,268,309
Segment liabilities	(255,091)	(46,862)	(301,953)

Note 15 Subsidiaries

15.1 Information about Subsidiaries

The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

		Ownership interest held	
		2021 %	2020 %
Lone Star Energy Limited	Australia	100	100
LS Operating Pty Ltd	Australia	100	100
Lonestar Exploration & Production Inc	USA	100	100

Notes to the financial statements

for the year ended 30 June 2021

Note 16 Key management personnel compensation

16.1 Key management personnel (KMP)

The names are positions of KMP are as follows:

- Mr Robert Gardner *Executive Chairman*
- Mr David Deloub *Executive Director*
- Jay Stephenson Non-executive *Director and Company Secretary*

16.2 KMP compensation

The totals of remuneration paid or payable to KMP during the year are as follows:

	2021 $	2020 $
Short-term employee benefits	197,100	175,833

Refer to the Remuneration Report contained in the Directors' Report commencing on page 8 for details of the remuneration paid to each member of the Company's KMP for the year ended 30 June 2021.

During the year, consulting fees of $36,000 were paid to Forest House Pty Ltd, a company owned by Mr Jay Stephenson.

Note 17 Earnings per share (EPS)

	2021 $	2020 $
17.1 Loss used in the calculation of basic EPS loss	(203,817)	(2,547,474)

	2021 No.	2020 No.
17.2 Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted EPS	473,154,513	371,513,626

	2021 ¢	2020 ¢
17.3 Basic and diluted EPS (cents per share)	(0.04)	(0.69)

17.3.1 The Group is in a loss-making position and it is unlikely that the conversion to, calling of, or subscription for, ordinary share capital in respect of potential ordinary shares would lead to diluted earnings per share that shows an inferior view of the earnings per share. Therefore, in the event the Group has dilutionary equity instruments on issue, the diluted loss per share for the year ended 30 June 2021 is the same as basic loss per share, whilst the Group remains loss making.

17.4 Accounting Policy

i. Basic earnings per share

Basic earnings (or loss) per share is determined by dividing the profit or loss attributable to equity holders of the parent company, excluding any costs of service 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 (or loss) per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which comprise share options granted as Share-based payments.

The Group does not report diluted earnings per share, as dilution is not applied to annual losses generated by the Group.

Notes to the financial statements

for the year ended 30 June 2021

Note 18 Statement of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

18.1 Basis of preparation

18.1.1 Statement of compliance

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001* (Cth).

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements were authorised for issue on 28 September 2021 by the directors of the Company.

18.1.2 Financial position

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

18.1.3 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.

18.1.4 Going Concern

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.

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.

The impact of the Coronavirus (COVID-19) pandemic is ongoing, and it is not practicable to estimate the potential impact after the reporting date. There has been no material impact to the Group's financial performance or position arising from the pandemic from the end of the reporting period to the date of this report.

18.1.5 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed after each note.

18.1.6 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.

18.1.7 Business Combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquisition; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree;
- less
- the net recognised amount of the identifiable assets acquired, and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Notes to the financial statements

for the year ended 30 June 2021

Note 18 Statement of significant accounting policies (cont.)

18.1.8 Comparative figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

18.2 Critical Accounting Estimates and Judgements

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements 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.

18.2.1 Key Estimate – Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by tax authorities in relevant jurisdictions.

18.3 New, revised or amending Accounting Standards and Interpretations adopted

In the year ended 30 June 2021, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company’s operations and effective for the 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.

18.4 New Accounting Standards and Interpretations not yet mandatory or early adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Company and effective for the 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 in issue not yet adopted on the Company and therefore no material change is necessary to Group accounting policies.

Notes to the financial statements

for the year ended 30 June 2021

Note 19 Parent entity information	2021 $	2020 $
Financial Position		
Current assets	11,230,472	3,647,274
Non-current assets	-	2,569,679
Total assets	11,230,472	6,216,953
Current liabilities	375,909	245,607
Total liabilities	375,909	245,607
Net assets	10,854,563	5,971,346
Issued capital	34,784,498	31,606,110
Reserves	1,981,291	459,679
Accumulated losses	(25,911,226)	(26,094,443)
	10,854,563	5,971,346
Finance performance		
Profit/ (loss) for the year	183,217	(542,484)
Total comprehensive income	183,217	(542,484)

Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 42, are in accordance with the *Corporations Act 2001* (Cth) and:

    (a) comply with Australian Accounting Standards;

    (b) are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 18.1 to the financial statements; and

    (c) give a true and fair view of the financial position as at 30 June 2021 and of the performance for the year ended on that date of the Company.

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

3. The directors have been given the declarations required by s295A of the *Corporations Act 2001* (Cth) from those acting in the capacity of Chief Executive Officer and Chief Financial Officer.

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 Tuesday, 28 September 2021

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

Report on the Financial Report

Opinion

We have audited the accompanying 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 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of Stonehorse Energy Limited is in accordance with the Corporations Act 2001, including:

i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and

ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key Audit Matters (cont)

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Revenue and related risk of fraud – Note 1

Why significant	How our audit addressed the key audit matter
The Group's revenue primarily relates to the net revenue received from the sale of oil and gas which is recognised when the Group is notified of its proportionate share from operators of each production asset project. Revenue recognition was a key audit matter due to the significance and materiality of the matter to users understanding of the financial report.	Our work included, but was not limited to, the following procedures: • Ensuring that accounting policies comply with Australian Accounting standards; • Performing testing over a sample of revenue to supporting evidence; • Ensuring the adequacy of disclosures made within the financial report. • Comparing sales recorded to external information, including production volumes and commodity prices to determine the reasonableness of revenue recognised.

2. Impairment of producing assets – Note 7

Why significant	How our audit addressed the key audit matter
Australian Accounting Standards require the Group to assess whether there are any indicators that oil and gas properties may be impaired. If an indicator exists, the Group must estimate the recoverable amount of the asset. At year end, the Group concluded that there were no impairment charges or reversals of previous impairment charges required for any of its Cash Generating Units (CGUs). In determining whether there was an indicator of impairment or impairment reversal, the Group considered whether there was a significant change in the external or internal factors as set out in Note 7 to the financial statements. The key assumptions, judgements and estimates used in the Group's assessment of impairment are also disclosed in Note 7. The assessment of impairment indicators is complex and highly judgemental and includes assessing a range of external and internal factors and modelling a range of assumptions that could impact the recoverable amount of a CGU. Accordingly, this matter was considered to be a key audit matter.	We evaluated whether there had been significant changes in the external or internal factors considered by the Group in assessing whether indicators of impairment or reversal of impairment existed. This included assessing the foreign exchange rates and commodity prices with reference to market prices (where available), market research, market practice, market indices, oil production data and historical performance. In addition, future estimated net revenue and profit stream of each CGUs were reviewed. We also considered the adequacy of the financial report disclosures regarding the assumptions, key estimates and judgements applied by management for the Group's assessment of indicators of impairment of non-current assets. These have been disclosed in Note 7.

Other Information

Other information is financial and non-financial information in the annual report of the Group which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report. The Other Information we obtained prior to the date of this Auditor's Report was the Director's report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 18.1.1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. 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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation. We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Stonehorse Energy Limited for the year ended 30 June 2021, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

Hall Chadwick

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

NS

Nikki Shen
Director

Dated 28 September 2021

Corporate Governance Statement

This Corporate Governance summary discloses the extent to which the Company will follow the recommendations set by the ASX Corporate Governance Council in its publication 'Corporate Governance Principles and Recommendations (3rd Edition)' (**Recommendations**). The Recommendations are not mandatory, however, the Recommendations that will not be followed have been identified and reasons have been provided for not following them.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1 A listed entity should have and disclose a charter which: (a) sets out the respective roles and responsibilities of the board, the chair and management; and (b) includes a description of those matters expressly reserved to the board and those delegated to management.	Complying	The Company has adopted a Board Charter. The Board Charter sets out the specific responsibilities of the Board, requirements as to the Boards composition, the roles and responsibilities of the Chairman and Company Secretary, the establishment, operation and management of Board Committees, Directors access to company records and information, details of the Board's relationship with management, details of the Board's performance review and details of the Board's disclosure policy. A copy of the Company's Board Charter is stated in Schedule 1 of the Corporate Governance Plan which is available on the Company's website.
Recommendation 1.2 A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director.	Complying	(a) The Company has detailed guidelines for the appointment and selection of the Board. The Company's Corporate Governance Plan requires the Board to undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director. (b) Material information relevant to any decision on whether or not to elect or re-elect a Director will be provided to security holders in the notice of meeting holding the resolution to elect or re-elect the Director.
Recommendation 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Complying	The Company's Corporate Governance Plan requires the Board to ensure that each Director and senior executive is a party to a written agreement with the Company which sets out the terms of that Director's or senior executive's appointment.
Recommendation 1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Complying	The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.
Recommendation 1.5 A listed entity should: (a) have a diversity policy which includes requirements for the board: (i) to set measurable objectives for achieving gender diversity; and (ii) to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary or it; and (c) disclose as at the end of each reporting period: (i) the measurable objectives for achieving gender diversity set by the board in accordance with the entity's diversity policy and its progress towards achieving them; and (ii) either: (A) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (B) the entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.	Complying	(a) The Company has adopted a Diversity Policy. (i) The Diversity Policy provides a framework for the Company to achieve a list of 6 measurable objectives that encompass gender equality. (ii) The Diversity Policy provides for the monitoring and evaluation of the scope and currency of the Diversity Policy. The company is responsible for implementing, monitoring and reporting on the measurable objectives. (b) The Diversity Policy is stated in Schedule 9 of the Corporate Governance Plan which is available on the company website. (c) (i) The measurable objectives set by the Board will be included in the annual key performance indicators for the CEO, MD and senior executives. In addition the Board will review progress against the objectives in its annual performance assessment. (ii) The currently has no employees and utilizes external consultants and contractors as and when required. (iii) The Board will review this position on an annual basis and will implement measurable objectives as and when they deem the Company to require them.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 1.6 A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Complying	(a) The Board is responsible for evaluating the performance of the Board and individual directors on an annual basis. It may do so with the aid of an independent advisor. The process for this can be found in Schedule 6 of the Company's Corporate Governance Plan. . (b) The Company's Corporate Governance Plan requires the Board to disclosure whether or not performance evaluations were conducted during the relevant reporting period. Due to the size of the Board and the nature of the business, it has not been deemed necessary to institute a formal documented performance review program of individuals. However, the Chairman intends to conduct formal reviews each financial year whereby the performance of the Board as a whole and the individual contributions of each director are disclosed. The Board considers that at this stage of the Company's development an informal process is appropriate. The review will assist to indicate if the Board's performance is appropriate and efficient with respect to the Board Charter. The Board regularly reviews its skill base and whether it remains appropriate for the Company's operational, legal and financial requirements. New Directors are obliged to participate in the Company's induction process, which provides a comprehensive understanding of the Company, its objectives and the market in which the Company operates. Directors are encourages to avail themselves of resources required to fulfil the performance of their duties.
Recommendation 1.7 A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Complying	(a) The Board is responsible for evaluating the performance of senior executives. The Board is to arrange an annual performance evaluation of the senior executives. (b) The Company's Corporate Governance Plan requires the Board to conduct annual performance of the senior executives. Schedule 6 'Performance Evaluation' requires the Board to disclose whether or not performance evaluations were conducted during the relevant reporting period. During the financial year an evaluation of performance of the individuals was not formally carried out. However, a general review of the individuals occurs on an on-going basis to ensure that structures suitable to the Company's status as a listed entity are in place.
Principle 2: Structure the board to add value		
Recommendation 2.1 The board of a listed entity should: (a) have a nomination committee which: (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.	Complying	(b) Due to the size and nature of the existing Board and the magnitude of the Company's operations the Company currently has no Nomination Committee. Pursuant to clause 4(h) of the Company's Board Charter, the full Board carries out the duties that would ordinarily be assigned to the Nomination Committee under the written terms of reference for that committee. The duties of the Nomination Committee are outlined in Schedule 5 of the Company's Corporate Governance Plan available online on the Company's website. The Board devotes time at board meetings to discuss board succession issues. All members of the Board are involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules. The Board regularly updates the Company's board skills matrix (in accordance with recommendation 2.2) to assess the appropriate balance of skills, experience, independence and knowledge of the entity.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 2.2 A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Complying	**Board Skills Matrix** — **Number of Directors that Meet the Skill** Executive & Non- Executive experience: 3 Industry experience & knowledge: 3 Leadership: 3 Corporate governance & risk management: 3 Strategic thinking: 3 Desired behavioural competencies: 3 Geographic experience: 2 Capital Markets experience: 3 *Subject matter expertise:* - accounting: 2 - capital management: 3 - corporate financing: 2 - industry taxation [1]: 0 - risk management: 3 - legal: 3 - IT expertise [2]: 0 (1) Skill gap noticed however an external taxation firm is employed to maintain taxation requirements. (2) Skill gap noticed however an external IT firm is employed on an adhoc basis to maintain IT requirements.
Recommendation 2.3 **A listed entity should disclose:** (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director	Complying	(a) The Board Charter provides for the disclosure of the names of Directors considered by the Board to be independent. These details are provided in the Annual Reports and Company website. (b) The Board Charter requires Directors to disclose their interest, positions, associations and relationships and requires that the independence of Directors is regularly assessed by the Board in light of the interests disclosed by Directors. Details of the Directors interests, positions associations and relationships are provided in the Annual Reports and Company website. (c) The Board Charter provides for the determination of the Directors' terms and requires the length of service of each Director to be disclosed. The length of service of each Director is provided in the Annual Reports and Company website.
Recommendation 2.4 A majority of the board of a listed entity should be independent directors.	Not complying	The Board Charter requires that where practical the majority of the Board will be independent. None of the Directors of Stonehorse are independent directors. Details of each Director's independence are provided in the Annual Reports and Company website.
Recommendation 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	Not complying	The Board Charter provides that where practical, the Chairman of the Board will be an independent director. The current Chairman is not an independent director. If the Chairman ceases to be independent then the Board will consider appointing a lead independent Director.
Recommendation 2.6 A listed entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively.	Complying	The Board Charter states that a specific responsibility of the Board is to procure appropriate professional development opportunities for Directors. The Board is responsible for the approval and review of induction and continuing professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities.
Principle 3: Act ethically and responsibly		
Recommendation 3.1 A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	Complying	(a) The Corporate Code of Conduct applies to the Company's directors, senior executives and employees. (b) The Company's Corporate Code of Conduct is in Schedule 2 of the Corporate Governance Plan which is on the Company's website.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 3.2 A listed entity should: (a) have and disclose a code of conduct for its directors, senior executives and employees; and (b) ensure that the board or a committee of the board is informed of any material breaches of that code	Complying	(a) The Corporate Code of Conduct applies to the Company's directors, senior executives and employees. (b) The Company's Corporate Code of Conduct is in the Corporate Governance Plan. which is summarised on the Company's website.
Recommendation 3.3 A listed entity should: (a) have and disclose a whistleblower policy; and (b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.	Complying	The Company has a whistleblowing policy which is outlined in the Company Corporate Governance Plan. The board is informed of any material incidents reported under the policy.
Recommendation 3.4 A listed entity should: (a) have and disclose an anti-bribery and corruption policy; and (b) ensure that the Board or committee of the Board is informed of any material breaches of that policy.	Complying	The Company has an anti-corruption policy which is outlined in the Company Corporate Governance Plan. The board is informed of any material incidents reported under the policy.
Principle 4: Safeguard integrity in financial reporting		
Recommendation 4.1 The board of a listed entity should: (a) have an audit committee which: (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (ii) is chaired by an independent director, who is not the chair of the board, and disclose: (iii) the charter of the committee; (iv) the relevant qualifications and experience of the members of the committee; and (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	Complying	(b) Due to the size and nature of the existing Board and the magnitude of the Company's operations the Company currently has no Audit and Risk Committee. Pursuant to Clause 4(h) of the Company's Board Charter, the full Board carries out the duties that would ordinarily be assigned to the Audit and Risk Committee under the written terms of reference for that committee. The role and responsibilities of the Audit and Risk Committee are outlined in Schedule 3 of the Company's Corporate Governance Plan available online on the Company's website. The Board devote time at annual board meetings to fulfilling the roles and responsibilities associated with maintaining the Company's internal audit function and arrangements with external auditors. All members of the Board are involved in the Company's audit function to ensure the proper maintenance of the entity and the integrity of all financial reporting.
Recommendation 4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Complying	The Company's Corporate Governance Plan states that a duty and responsibility of the Board is to ensure that before approving the entity's financial statements for a financial period, the CEO and CFO have declared that in their opinion the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
Recommendation 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Complying	The Company's Corporate Governance Plan provides that the Board must ensure the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.
Principle 5: Make timely and balanced disclosure		

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 5.1 A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under Listing Rule 3.1.	Complying	The Board Charter provides details of the Company's disclosure policy. In addition, Schedule 7 of the Corporate Governance Plan is entitled 'Disclosure – Continuous Disclosure' and details the Company's disclosure requirements as required by the ASX Listing Rules and other relevant legislation. The summary of the Corporate Governance Plan is available on the Company website.
Recommendation 5.2 A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	Complying	Each member of the board receives copies of all material market announcements promptly after they have been made.
Recommendation 5.3 A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market. Announcements Platform ahead of the presentation.	Complying	All substantive investor or analyst presentations are released on the ASX Market Announcement Platform ahead of the presentation.
Principle 6: Respect the rights of security holders		
Recommendation 6.1 A listed entity should provide information about itself and its governance to investors via its website.	Complying	Information about the Company and its governance is available in the Corporate Governance Plan which can be found on the Company's website. Information about the Company and its governance is available in the Corporate Governance Plan which can be found on the Company website.
Recommendation 6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Complying	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Shareholder Communications Strategy outlines a range of ways in which information is communicated to shareholders. The Shareholder Communications Strategy can be found in Schedule 10 of the Board Charter which is available on the Company website.
Recommendation 6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Complying	The Shareholder Communications Strategy states that as a part of the Company's developing investor relations program, Shareholders can register with the Company Secretary to receive email notifications of when an announcement is made by the Company to the ASX, including the release of the Annual Report, half yearly reports and quarterly reports. Links are made available to the Company's website on which all information provided to the ASX is immediately posted. Shareholders are encouraged to participate at all EGMs and AGMs of the Company. Upon the despatch of any notice of meeting to Shareholders, the Company Secretary shall send out material with that notice of meeting stating that all Shareholders are encouraged to participate at the meeting.
Recommendation 6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Complying	Security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX. Shareholders queries should be referred to the Company Secretary at first instance.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 7.1 The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.	Complying	(b) Due to the size and nature of the existing Board and the magnitude of the Company's operations the Company currently has no Audit and Risk Committee. Pursuant to Clause 4(h) of the Company's Board Charter, the full Board currently carries out the duties that would ordinarily be assigned to the Audit and Risk Committee under the written terms of reference for that committee. The role and responsibilities of the Audit and Risk Committee are outlined in Schedule 3 of the Company's Corporate Governance Plan available online on the Company's website. The Board devote time at annual board meeting to fulfilling the roles and responsibilities associated with overseeing risk and maintaining the entity's risk management framework and associated internal compliance and control procedures.
Recommendation 7.2 The board or a committee of the board should: (a) review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board; and (b) disclose in relation to each reporting period, whether such a review has taken place.	Complying	(a) The Company process for risk management and internal compliance includes a requirement to identify and measure risk, monitor the environment for emerging factors and trends that affect these risks, formulate risk management strategies and monitor the performance of risk management systems. Schedule 8 of the Corporate Governance Plan is entitled 'Disclosure – Risk Management' and details the Company's disclosure requirements with respect to the risk management review procedure and internal compliance and controls. (b) The Board Charter requires the Board to disclose the number of times the Board met throughout the relevant reporting period, and the individual attendances of the members at those meetings. Details of the meetings will be provided in the Company's Annual Report.
Recommendation 7.3 A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	Complying	(b) Schedule 3 of the Company's Corporate Plan provides for the internal audit function of the Company. The Board Charter outlines the monitoring, review and assessment of a range of internal audit functions and procedures.
Recommendation 7.4 A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Complying	Schedule 3 of the Company's Corporate Plan details the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (if appropriate). Review of the Company's risk management framework is conducted at least annually and reports are continually created by management on the efficiency and effectiveness of the Company's risk management framework and associated internal compliance and control procedures.
Principle 8: Remunerate fairly and responsibly		

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 8.1 The board of a listed entity should: (a) have a remuneration committee which: (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	Complying	(b) Due to the size and nature of the existing board and the magnitude of the Company's operations the Company currently has no Remuneration Committee. Pursuant to clause 4(h) of the Company's Board Charter, the full Board currently carries out the duties that would ordinarily be assigned to the Remuneration Committee under the written terms of reference for that committee. The role and responsibilities of the Remuneration Committee are outlined in Schedule 4 of the Company's Corporate Governance Plan available online on the Company's website. The Board devote time at annual board meetings to fulfilling the roles and responsibilities associated with setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.
Recommendation 8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.	Complying	The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of non-executive, executive and other senior directors.
Recommendation 8.3 A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	Complying	(a) Company's Corporate Governance Plan states that the Board is required to review, manage and disclose the policy (if any) on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. The Board must review and approve any equity-based plans. (b) A copy of the Company's Corporate Governance Plan is available on the Company's website.

Additional information for listed public companies

The following additional information is required by the Australian Securities Exchange in respect of listed public companies.

1 Shareholding as at 2021

a. Distribution of Shareholders 28 September 2021

Category (size of holding)	Total Holders	Number Ordinary	% Held of Issued Ordinary Capital
1 – 1,000	116	33,797	0.01
1,001 – 5,000	89	246,645	0.04
5,001 – 10,000	81	632,625	0.09
10,001 – 100,000	807	41,840,185	6.11
100,001 – and over	608	641,704,831	93.75
	1,701	**684,460,083**	**100.00**

b. Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $0.0230 per unit	21,740	459	3,849,904

c. Voting Rights

The voting rights attached to each class of equity security are as follows:

- **Ordinary shares**: Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

d. 20 Largest Shareholders — Ordinary Shares as at 28 September 2021

Rank	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	Watch Hill Holdings Limited	70,000,000	10.23
2.	Roca Investments Limited	65,000,000	9.50
3.	Fastwitch Enterprises Pty Ltd	39,500,000	5.77
4.	Norfolk Blue Pty Ltd <Norfolk Blue A/C>	24,000,000	3.51
5.	Wingstar Investments Pty Ltd	14,603,750	2.13
6.	Miss Ria Joanne Neff	13,330,000	1.95
7.	Ms Jessica Elle Barclay	12,000,000	1.75
8.	Mr Francis Matheson Grubb	11,950,000	1.75
9.	The Trust Company (Australia) Limited <MOF A/C>	10,596,875	1.55
10.	Mr Yongjia Tang	9,440,000	1.38
11.	TK Kingdom Pty Ltd	8,081,825	1.18
12.	Brookside Energy Limited	7,500,000	1.10
13.	World Trend Limited	7,446,666	1.09
14.	Mrs Lucy Koppes	6,403,335	0.94
15.	Castlebell Pty Ltd <Silver Cloud Super Fund A/C>	6,000,000	0.88
16.	Mr Brett Justin Beyer	5,366,401	0.78
17.	Citicorp Nominees Pty Ltd	5,353,642	0.78
18.	LL Arthur Limited	5,180,000	0.76
19.	Mr Niril Paw	4,711,385	0.69
20.	The Dutchina Investments Pty Ltd	4,500,000	0.60
	TOTAL	**330,963,879**	**48.32**

Additional information for listed public companies

2 Company Secretary

The name of the Company Secretary is Jay Richard Stephenson.

3 Principal registered office

As disclosed in the Corporate Directory on page i of this Annual Report.

4 Registers of securities are held at the following addresses

As disclosed in the Corporate Directory on page i of this Annual Report.

5 Stock exchange listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited, as disclosed in the Corporate Directory on page i of this Annual Report.

6 Unquoted securities

a. Options over Unissued Shares

The Company has 33,845,350 options on issue exercisable at 2.5c on or before 17 January 2023 and 250,000,000 options on issue exercisable at 4c on or before 9 April 2023.

7 Use of funds

The Company has used its funds in accordance with its initial business objectives.

STONEHORSE

ENERGY