



STONEHORSE

E N E R G Y

31 January 2022

QUARTERLY ACTIVITIES REPORT

FOR THE THREE MONTHS ENDING 31st DECEMBER 2021.

Oil and gas producer, Stonehorse Energy Limited (**ASX:SHE**) (**Stonehorse** or the **Company**) is pleased to present this Quarterly Report for the quarter ended 31st December 2021.

HIGHLIGHTS

- **Commercial production from the Jewell well increased during the quarter to levels well above pre-drill estimates.**
- **Jewell well cumulative production to 31 December 2021 was 172,433 BOE (~73% liquids)**
- **Independent of the IP24 rate, a peak oil rate of 973 barrels per day and peak rich gas rate of 3,959 Mcf per day were also achieved.**
- **An IP90 of ~1,570 BOE per day was achieved (~73% liquids) with the Jewell Well production continuing to exceed expectations.**
- **Net cashflow from operations for the quarter increased 10 fold to ~A\$1,948,000 from the previous quarter primarily as a result of production and sales from the Jewell.**
- **The company diversified its portfolio during the quarter with a planned investment in the Myall Creek-2 well in the Surat Basin operated by Armour Energy.**
- **The workover program on Myall Creek-2 has commenced with the well being cleaned out and recompleted in preparation for re-perforation and fracture stimulation.**

Stonehorse Energy's Managing Director, David Deloub, commented *"Jewell continued to be our dominant production asset during the quarter, with rates exceeding pre-drill estimates. As noted previously, higher revenues and cashflow allow us to invest in high-quality opportunities, with Myall Creek-2 our first Australian investment that ticks these boxes."*



OPERATIONAL ACTIVITIES

During the quarter, the performance of the Jewell well continued to exceed pre-drill estimates. The Jewell Well reached a peak rate (IP24) of ~1,800 BOE per day (75% liquids, 25% gas). Independent of this IP24 rate, a peak oil rate of 973 barrels per day and a peak rich gas rate of 3,959 Mcf per day were also achieved.

In addition, the well achieved an IP90 of 1,517 BOE per day (90-day average) within a period of measurement covering a combination of production rate growth followed by steady production. This sustained rate is significantly above stated pre-drill estimates for the Jewell Well. At the end of the reporting period cumulative production totalled 172,433 BOE (~73% liquids)

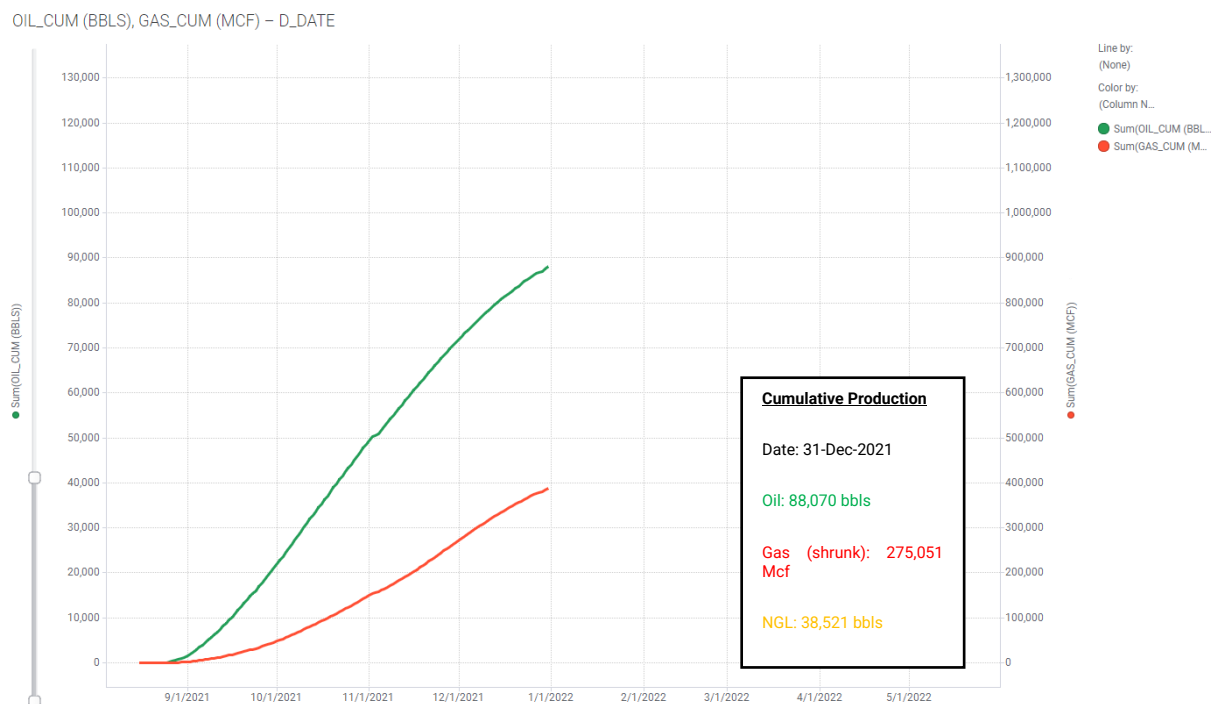


Figure 1. Jewell well cumulative production to 31 December 2021.

MYALL CREEK-2 INVESTMENT

During the quarter, the Company announced its first non-US investment, with the Company and a private investor group (InvestorCo) partnering with Armour Energy Limited to take a 50% Revenue Interest in the workover and well intervention program planned for the Myall Creek-2 well, located in the Surat Basin in south east Queensland.

The workover program commenced in late December 2021 with fracture stimulation expected during the March quarter. The capital cost will be funded 100% in equal portions by Stonehorse and InvestorCo, consistent with its stated strategy of identifying and investing in low-risk, production enhancement work programs.

The partners have engaged Griffin Energy Solutions to design and complete well intervention operations. Griffin is an independent specialist Oil & Gas technical and operational consulting firm with a reputation for commercial rigor and significant knowledge and experience in the energy resources sector.

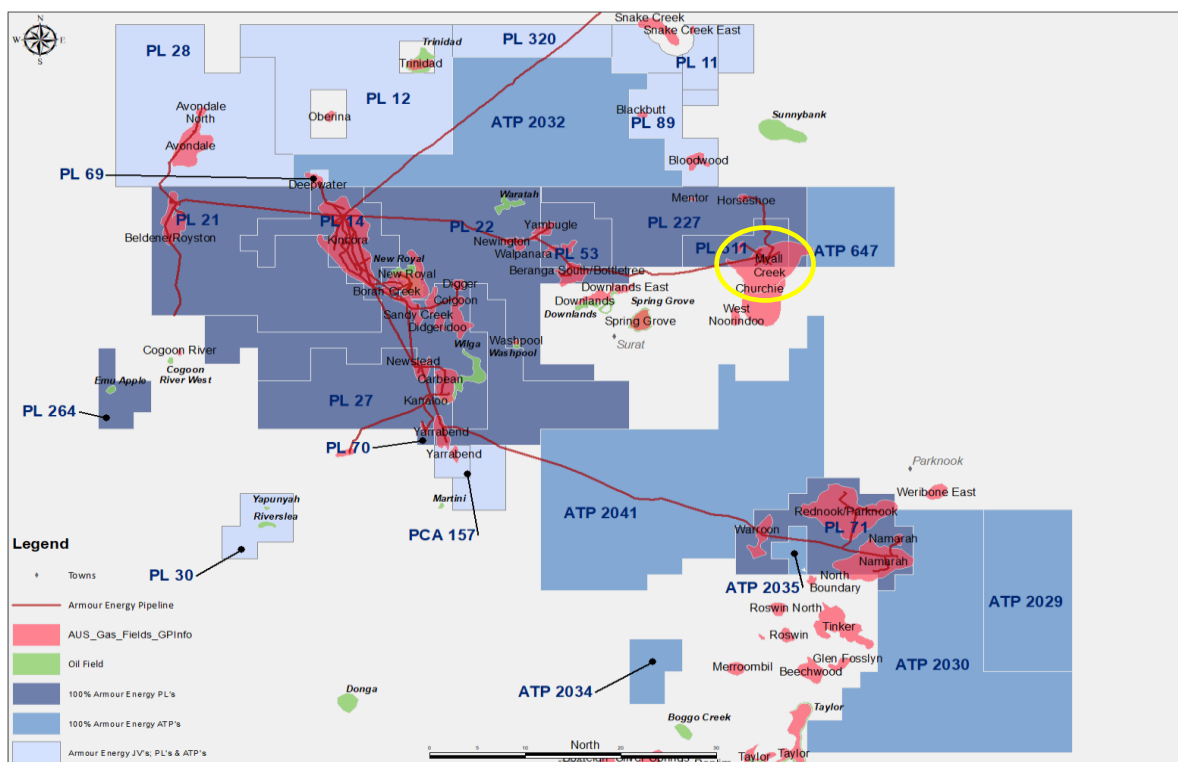


Figure 2. Surat Basin oil and gas province showing the location of Myall Creek in yellow.

Background on the Myall Creek-2 well

The Myall Creek-2 well was an exploration well drilled by OCA in 1999 to appraise the Tinowon formation. Although the primary target was the Upper Tinowon, the well encountered high mud log gas readings throughout the intervals, from the Showgrounds through to the lower Tinowon formations.

Myall Creek-2 intersected good quality reservoir in the Upper and Lower Tinowon formation. The Upper Tinowon reservoir was tested and flowed gas at 5.7 MMscfd and recovered condensate. The Lower Tinowon reservoir, while not tested, was similar to the Upper Tinowon and comprised a series of good quality fluvial channel sands with moderate to strong gas shows and fluorescence.

The Upper Tinowon formation was perforated and brought online in April 2001 producing 1.7 Bcf over 5 years before it was fracture stimulated. The post fracture stimulation rate was ~3.0 MMscfd, more than six times the pre-fracture stimulate rate of ~0.5 Mmscfd, from a depleted reservoir.

The Myall Creek-2 well is situated structurally high on an apparent, 3D interpreted, four way dip closure, with the lower Tinowon at virgin pressure. This reservoir is also laterally continuous.

Myall Creek-2 Investment

The proposed workover planning and execution commenced in December 2021, initially comprising recompletion to isolate the Tinowon A, perforating and subsequently fracture stimulating the Tinowon C, most likely in Q1 2022.

A workover rig will isolate the depleted Tinowon A reservoir perforations designed to facilitate fracture stimulation of uphole resevoirs including Tinowan C, Bandanna and Black Alley. The Tinowon C reservoir will be perforated and flow tested inline for a 30 day extended production test.

Following this test period feasibility and timing of the Tinowon C stimulation will be considered. A pulsed Neutron Log will also be conducted to evaluate the gas saturations on the Bandanna and Black Alley resevoirs as future stimulation targets.



Image of Myall Creek-2 location during workover operations in January 2022.



Production from the Myall Creek-2 well will commence flowing additional gas into the Kincora Gas Gathering System for processing and sale via the Kincora Gas Processing Plant. It is anticipated that initial perforation of Myall Creek-2 will take approximately 8 days from rig mobilisation to the well coming online.

The funding agreement between Stonehorse, InvestorCo and Armour Energy also contemplates subsequent well intervention activities within 12 months of the first well intervention in either/or both the Bandanna or Black Alley formations.

Stonehorse and InvestorCo will jointly fund 100% of the capital required which is estimated to cost \$1.5m for the perforation and stimulation of the Lower Tinowon, then a further A\$1.4m for a second well intervention within 12 months.

Stonehorse and InvestorCo will receive 50% of the gas and condensate revenue produced from the well less costs for a period of approximately seven years, while Armour will retain the remaining income and the associated P&A liabilities at the end of the well's economic life.

CURRENT PORTFOLIO OF OIL AND GAS WELL ASSETS

Table 1. Current Portfolio of Stonehorse and Orion JV wells.

Well Name	Reference Number	Working Interest	County, State	Operator
Stonehorse US				
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%	Gravin, 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	1-13-12SXH	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
Stonehorse Australia				
Myall Creek	Myall Creek-2	25%	Surat Basin, Qld	Armour Energy

The Company currently has non-operated working interests in twelve wells including the high impact Jewell well located Carter County, Oklahoma and the recent investment in the Myall Creek-2 well in Australia.



SUBSEQUENT EVENTS.

Myall Creek-2 workover rig WAS mobilised 7TH January 2022 . Planned workover on the well successfully completed into the Tinowon C formation with 30 day inline production test having commenced on the 17th January 2022.

The previously un-produced Tinowon C reservoir has now been perforated, completed for production and ready for future stimulation.

The well is now undergoing a 30 day extended line production test and Pressure Build Up (PBU) to assist in the evaluation prior to fracture stimulation. At the end of the test period, a decision will be taken on the priority and timing of fracture stimulating the Tinowon C reservoir interval.

A specialist pulsed neutron logging was also conducted during the workover operations over the Back Alley and Bandanna formations up hole, to confirm gas saturation as future fracture stimulation targets. Log interpretation is currently underway.

OPERATIONAL STRATEGY AND OBJECTIVES

The current strategy of Stonehorse is to build a portfolio of high quality well bore assets by taking non-operated working interests in wells reflecting risk appetite and capital availability.

The success of the Jewell well provides the Company with the funding capacity to increase the quality of its investments, as evidenced by the recent Myall Creek-2 investment.

As noted in the September quarterly report, the Company is focusing on diversifying its investment portfolio having identified investment opportunities to take non-operated working interests in oil and gas wells in the Cooper, Bowen and Surat basins located in south and south west Queensland. Additional opportunities a continuing to be assessed during the quarter.

ASX Additional Information

1. **ASX Listing Rule 5.2.1 and 5.4.2** – Oil and gas production and development and investment activity expenditure during the quarter was \$159,000. Full details of the activity during the quarter are set out in this report.
2. **ASX Listing Rule 5.2.2 and 5.4.1** – Exploration activity investment and operating expenditure for the quarter was \$1,399,000. There were no substantive exploration activities during the quarter.
3. **ASX Listing Rule 5.4.5** – Payments to related parties of the Company during the quarter and outlined in the Appendix 5B include \$56,000 for Director Fees.



This announcement is released on authority of the Board.

- ENDS -

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About Stonehorse Energy

Stonehorse Energy Limited (ASX:SHE) is an Australian ASX listed oil and gas exploration and production company which currently has working interests in a number of producing oil and gas assets located in Texas and Oklahoma, USA. Stonehorse's overall objective is to be cashflow accretive by building a portfolio of working interests in high quality producing oil and gas well bore assets delivering a return on investment to its shareholders reflecting risk appetite and capital availability.

Forward-Looking Statements and Other Disclaimers

This announcement may include forward-looking statements. Forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions, which are outside the control of Stonehorse Energy Limited ("Stonehorse Energy" or "the Company"). These risks, uncertainties and assumptions include commodity prices, currency fluctuations, economic and financial market conditions in various countries and regions, environmental risks and legislative, fiscal or regulatory developments, political risks, project delay or advancement, approvals and cost estimates. Actual values, results or events may be materially different to those expressed or implied in this announcement. Given these uncertainties, readers are cautioned not to place reliance on forward-looking statements. Any forward-looking statements in this announcement speak only at the date of issue of this announcement. Subject to any continuing obligations under applicable law and the ASX Listing Rules, Stonehorse Energy does not undertake any obligation to update or revise any information or any of the forward-looking statements in this announcement or any changes in events, conditions or circumstances on which any such forward looking statement is based. This announcement does not constitute investment advice. Neither this announcement nor the information contained in it constitutes an offer, invitation,



solicitation or recommendation in relation to the purchase or sale of shares in any jurisdiction. Shareholders should not rely on this announcement. This announcement does not take into account any person's particular investment objectives, financial resources or other relevant circumstances and the opinions and recommendations in this announcement are not intended to represent recommendations of particular investments to particular persons. All securities transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments. The information set out in this announcement does not purport to be all-inclusive or to contain all the information, which its recipients may require in order to make an informed assessment of Stonehorse Energy. You should conduct your own investigations and perform your own analysis in order to satisfy yourself as to the accuracy and completeness of the information, statements and opinions contained in this announcement. To the fullest extent permitted by law, the Company does not make any representation or warranty, express or implied, as to the accuracy or completeness of any information, statements, opinions, estimates, forecasts or other representations contained in this announcement. No responsibility for any errors or omissions from this announcement arising out of negligence or otherwise is accepted.

GLOSSARY

BOE	Barrels of Oil Equivalent
Development Unit (DSU)	Development unit or Drilling Spacing Unit (DSU) is the geographical area in which an initial oil and or gas well is drilled and produced from the geological formation listed in the spacing order. The spacing unit combines all interest owners for the purpose of sharing in production from oil and or gas wells in the unit. A spacing order establishes the size of the unit, divides the ownership of the unit into the "royalty interest" and "working interest".
Mboe	1,000 barrels of oil equivalent
IP24	Means average daily oil production of a well in its peak 24 hour production
IP30	Means average daily oil production of a well in its peak production month
IP90	Means average daily oil production of a well in its peak production 3 months
Mcf	1,000 cubic feet (of gas)
MMboe	1,000,000 barrels of oil equivalent
STACK	Sooner Trend Anadarko Basin Canadian and Kingfisher Counties – oil and gas play in the Anadarko Basin Oklahoma
SCOOP	South Central Oklahoma Oil Province - oil and gas play in the Anadarko Basin Oklahoma
SWISH AOI	Description of Brookside's Area of Interest in the SCOOP Play

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Stonehorse Energy Limited

ABN

13 086 972 429

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,244	2,458
1.2 Payments for		
(a) exploration & evaluation	-	-
(b) development	-	-
(c) production	(159)	(188)
(d) staff costs	-	-
(e) administration and corporate costs	(212)	(477)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	75	94
1.9 Net cash from / (used in) operating activities	1,948	1,887

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	(2)	(2)
(d) exploration & evaluation (well rework / development cost)	(1,399)	(2,955)
(e) investments	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements / working interests	93	469
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(1,306)	(2,488)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	721
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	721

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,867	3,190
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,948	1,887
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,306)	(2,488)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	721

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(30)	169
4.6	Cash and cash equivalents at end of period	3,479	3,479

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,459	2,847
5.2	Call deposits	20	20
5.3	Bank overdrafts	-	-
5.4	Other (High Interest Account)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,479	2,867

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	56
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

Section 6.1: \$55,822 for the payment of current Director fees to Mr Deloub and Mr Stephenson.

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	-	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	1,948
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(1,399)
8.3 Total relevant outgoings (item 8.1 + item 8.2)	549
8.4 Cash and cash equivalents at quarter end (item 4.6)	3,479
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	3,479
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	N/A
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31/01/2022.....

Authorised by: By the Board.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.