STONEHORSE ENERGY

ABN 13 086 972 429

HALF-YEAR REPORT

31 December 2021

CORPORATE DIRECTORY

DIRECTORS

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

COMPANY SECRETARY

Mr Jay Stephenson

REGISTERED OFFICE

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Level 10, Central Park
152-158 St Georges Terrace, Perth WA 6000

ASX Code: SHE

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+61(0)8 9426 0666

SHARE REGISTRY

Computershare Registry Services
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HALF YEAR REPORT
31 DECEMBER 2021

Contents

DIRECTORS' REPORT

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

2. Company Secretary

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

- Mr Jay Stephenson

3. Review of Operations

3.1. Operations Review

Stonehorse Energy Limited **(ASX: SHE) (Stonehorse** or the **Company)** is pleased to present this Directors' report for the half year ended 31 December 2021.

CORPORATE ACTIVITIES

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

The Company continues 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 including but not limited to investment opportunities to take non-operated working interests in oil and gas wells in fields located the domestic Australian market.

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.

DIRECTORS' REPORT

OPERATIONAL ACTIVITIES

Jewell Well (SHE 41.5% Interest)[1]

During the half year, the performance of the Jewell well continued to exceed pre-drill estimates. As at 21 November 2021, the 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).

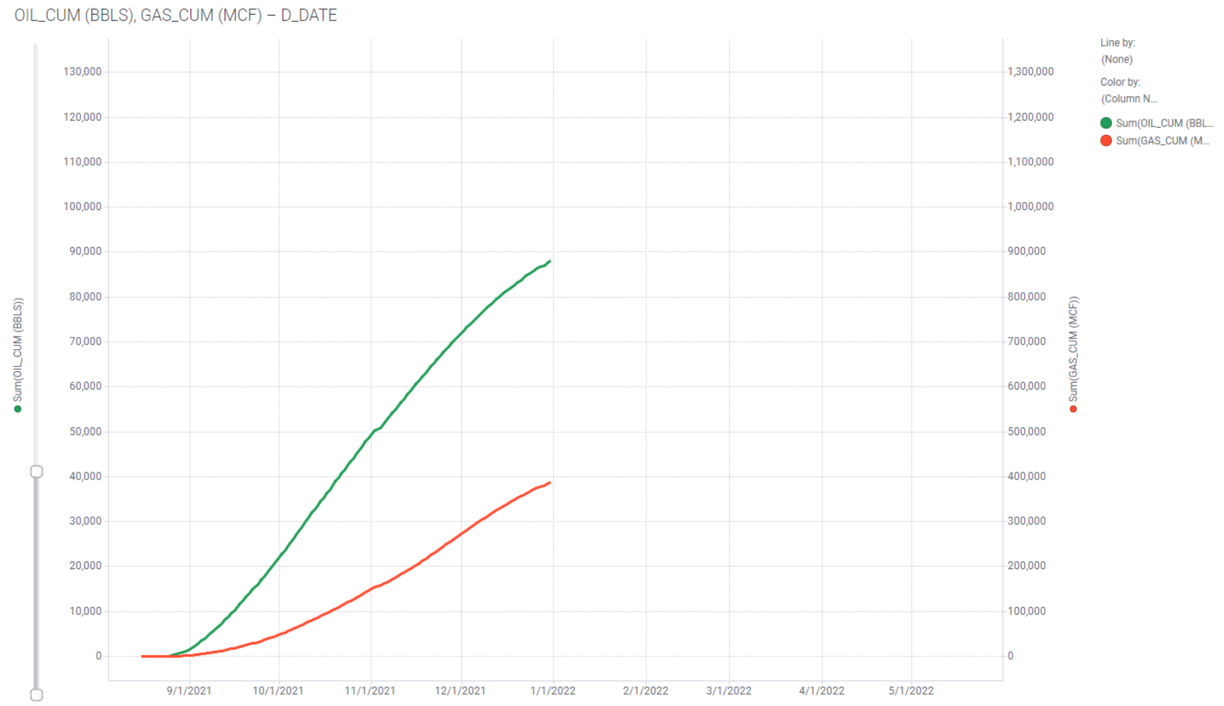

Figure 1. Jewell well cumulative production to 31 December 2021.

Myall Creek – 2 Investment (SHE 25% Interest)[2]

In November 2021, the Company announced its first non-US investment, the Myall Creek-2 well, located in the Surat Basin in southeast Queensland. In November 2021, the Company and a private investor group (InvestorCo) partnered with Armour Energy Limited to take a 50% Revenue Interest in the workover and well intervention program at the site.

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

[1] ASX Announcement 21 November 2022 - Jewell and Myall Creek-2 Operational Update

[2] ASX Announcement 1 November 2021 - Stonehorse makes its maiden Australian oil and gas investment in the Surat Basin, Southeast Queensland & ASX Announcement 21 November 2022 - Jewell and Myall Creek-2 Operational Update

DIRECTORS' REPORT

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.

Initial perforation of Myall Creek-2 is anticipated to take approximately 8 days from rig mobilisation to the well coming online. The funding agreement between the Company, 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.

The Company 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.

The Company 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.

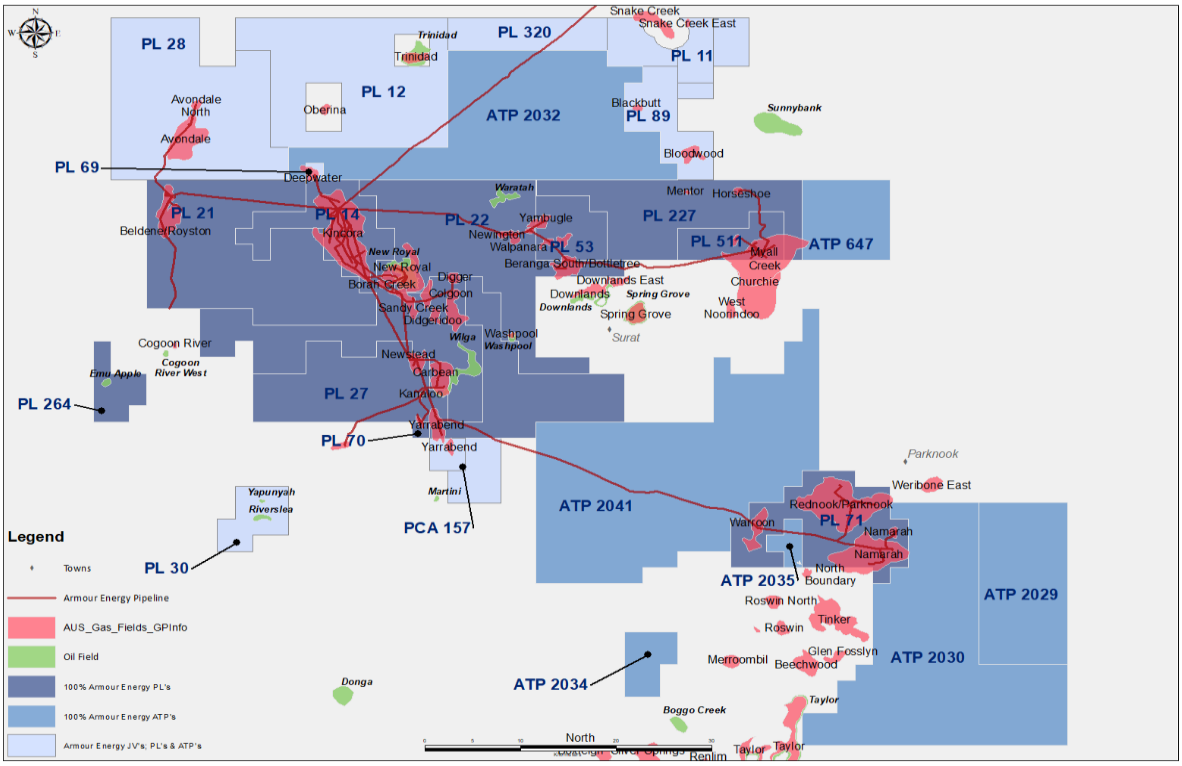

Figure 2. Surat Basin oil and gas province showing the location of Myall Creek in yellow.

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.

DIRECTORS' REPORT

The Upper Tinowon formation was perforated and brought online in April 2001, producing 1.7 Bcf over five 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.

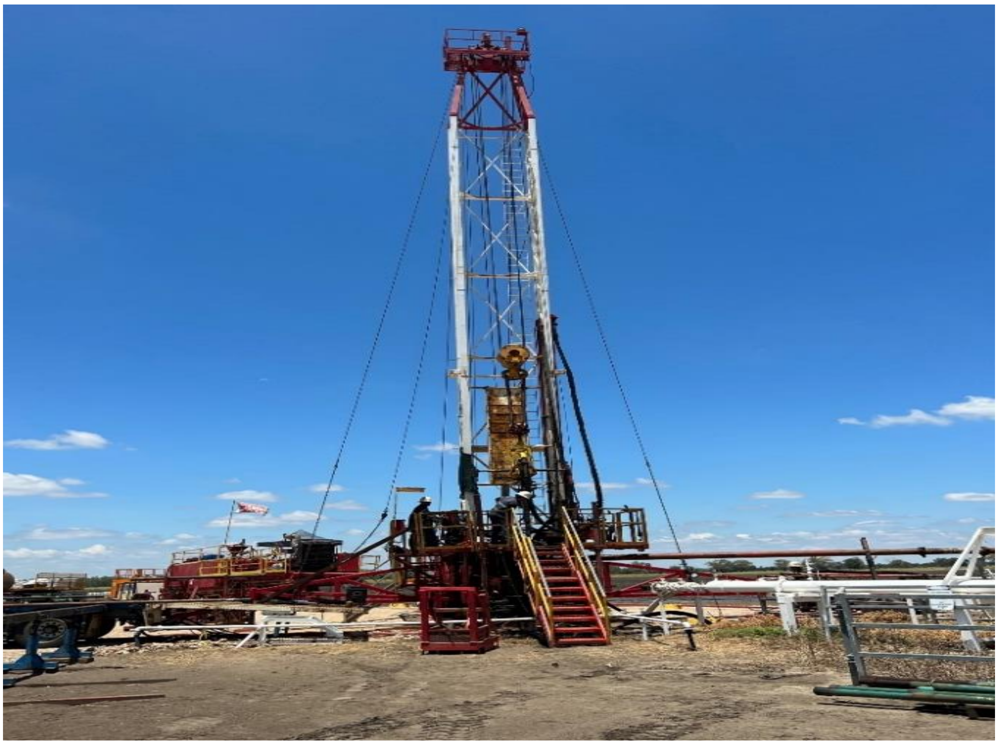

Figure 3. Image of Myall Creek-2 location during workover operations in January 2022.

Meramec Wells (SHE 0.21% Interest)[3]

In 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.

[3] ASX Announcement 14 September 2021 - Corporate and Operational Update

DIRECTORS' REPORT

CURRENT PORTFOLIO OF OIL AND GAS WELL ASSETS

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.

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

3.2. Operating results

The gain of the Group for the half year amounted to $1,174,605 (2020: loss $327,696), which was expected at the Group's current operating levels.

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

3.3. Financial position

The Group cash balance as at 31 December 2021 was $3,459,837 and had working capital surplus of $4,161,779 (30 June 2021: $4,772,057) and net assets of $10,363,208 (30 June 2021: $8,462,539) as at 31 December 2021.

DIRECTORS' REPORT

4. Events subsequent to reporting date

The workover programme on Myall Creek-2 has been successfully completed, with the depleted Tinowon A reservoir now isolated. The previously un-produced Tinowon C reservoir has been perforated, completed for production and ready for future stimulation. A specialist pulsed neutron logging was also conducted during the workover operations over the Back Alley and Bandanna formations to ascertain gas saturation as future fracture stimulation targets. Log interpretation is currently underway.

The well has been reconnected to the gas gathering system and a 30-day in-line production test commenced on 17 January 2022. Initial gas flow rates are fluctuating between 200 – 400 MSCF/day with produced gas going to sales. 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.

Auditor’s Independence Declaration

The lead auditor’s independence declaration under section 307C of the *Corporations Act 2001* (Cth) for the half-year ended 31 December 2021 has been received and can be found on page 4 of the interim financial report.

R. Gardner.

ROBERT GARDNER
Chairman
Dated this Friday, 11 March 2022

HALL CHADWICK

AUDITOR'S INDEPENDENCE DECLARATION
STONEHORSE ENERGY LIMITED

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

As lead audit partner for the review of the financial report of Stonehorse Energy Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Hall Chadwick

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

Nikki Shen

Nikki Shen
Director

Dated 11th March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the period ended 31 December 2021

	Note	31 Dec 2021 $	31 Dec 2020 $
Continuing operations			
Revenue		2,456,967	216,398
Less: Production costs		(188,589)	(140,031)
Gross profit		2,268,378	76,367
Government Grant and subsidies		-	43,684
Other income		69,326	-
Foreign Exchange gain		148,988	-
Fair value gain on financial assets		-	150,000
		2,486,692	270,051
Compliance costs		(56,326)	(19,315)
Employee benefits expenses		(123,295)	(96,175)
Exploration and evaluation expenditure		-	(20,865)
Professional fees		(60,119)	(128,116)
Marketing and investor relations expenses		-	(25,000)
Insurance expense		(11,992)	(21,050)
Other expenses		(73,306)	(126,106)
Foreign Exchange expense		-	(12,685)
Amortisation expense	10	(846,868)	(148,435)
Share based payment expenses		(5,181)	-
Fair value loss on financial assets		(135,000)	-
Gain / (loss) before tax		1,174,605	(327,696)
Income tax		-	-
Gain / (loss) from continuing operations		1,174,605	(327,696)
Net gain / (loss) for the period		1,174,605	(327,696)
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 gain / (loss) attributable to members of the parent entity		1,174,605	(327,696)
Gain / (loss per share):		¢	¢
Basic gain / (loss) per share (cents per share)	2	0.17	(0.08)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

	Note	31 Dec 2021 $	30 Jun 2021 $
Current assets			
Cash and cash equivalents	3	3,459,837	3,254,023
Trade and other receivables		13,863	29,670
Financial assets	4	900,000	1,035,000
Other current assets		60,700	829,273
Total current assets		4,434,400	5,147,966
Non-current assets			
Property, plant, and equipment		1,407	-
Exploration and evaluation assets		650,157	1,582,873
Producing assets	10	5,549,865	2,107,609
Total non-current assets		6,201,429	3,690,482
Total assets		**10,635,829**	**8,838,447**
Current liabilities			
Trade and other payables	5	272,621	375,909
Total current liabilities		272,621	375,909
Total liabilities		**272,621**	**375,909**
Net assets		**10,363,208**	**8,462,539**
Equity			
Issued capital	6	35,505,381	34,784,498
Reserves		1,986,472	1,981,291
Accumulated losses		(27,128,645)	(28,303,250)
Total equity / (deficiency)		**10,363,208**	**8,462,539**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2021

	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total $
Balance at 1 July 2020		31,606,110	(28,099,433)	459,679	3,966,356
Loss for the period		-	(327,696)	-	(327,696)
Other comprehensive income for the period		-	-	-	-
Total comprehensive loss for the period		-	(327,696)	-	(327,696)
Transaction with owners, directly in equity					
Shares issued during the period		-	-	-	-
Options issued during the period		-	-	-	-
Transaction costs on share issue		-	-	-	-
Balance at 31 December 2020		**31,606,110**	**(28,427,129)**	**459,679**	**3,638,660**
Balance at 1 July 2021		34,784,498	(28,303,250)	1,981,291	8,462,539
Gain for the period		-	1,174,605	-	1,174,605
Other comprehensive income for the period		-	-	-	-
Total comprehensive loss for the period		-	1,174,605	-	1,174,605
Transaction with owners, directly in equity					
Shares issued during the period	6	720,883	-	-	720,883
Performance rights issued during the period		-	-	5,181	5,181
Transaction costs on share issue		-	-	-	-
Balance at 31 December 2021		**35,505,381**	**(27,128,645)**	**1,986,472**	**10,363,208**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 December 2021

	Note	2021 $	2020 $
Cash flows from operating activities			
Receipts from customers		2,457,783	216,398
Payments to suppliers and employees		(572,452)	(528,322)
Government grants		-	43,684
Net cash generated by / (used in) operating activities		1,885,331	(268,240)
Cash flows from investing activities			
Payments for financial assets		-	(150,000)
Payments for property, plant, and equipment		(1,999)	-
Payments for exploration and evaluation assets		(651,663)	-
Payments for producing assets	10	(1,834,337)	(231,168)
Net cash used in investing activities		(2,487,999)	(381,168)
Cash flows from financing activities			
Proceeds from exercise of options		720,883	-
Net cash generated by financing activities		720,883	-
Net increase / (decrease) in cash held		118,215	(649,408)
Effect of exchange rate fluctuations on cash held		87,599	-
Cash at the beginning of the period		3,254,023	2,135,533
Cash at the end of the period	3	**3,459,837**	**1,486,125**

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

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2021

Note 1. Statement of significant accounting policies

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

The financial statements were authorised for issue on 11 March 2022 by the directors of the Company.

a. Basis of preparation

This half-year financial report is intended to provide users with an update on the latest annual financial statements of Stonehorse Limited. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in combination with the annual financial statements of the Group for the year ended 30 June 2021, together with any public announcements made during the half-year.

i. Statement of compliance

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

ii. Financial position

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

iii. Going concern

The half-year financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2021

iv. Basis of Consolidation

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

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

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

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

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

Changes in the Company's ownership interest in existing subsidiaries

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2021

v. Impairment of Assets

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

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

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

vi. Exploration and evaluation assets

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 period ended 31 December 2021

vii. Producing Assets

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

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

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

viii. Revenue Recognition

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

Sale of oil and gas

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

Interest income

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

b. Critical Accounting Estimates and Judgments

The critical estimates and judgements are consistent with those applied and disclosed in the 30 June 2021 annual report.

Key Judgments – Producing Assets

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

c. Adoption of new and revised accounting standards

In the half-year ended 31 December 2021, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 July 2021.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2021

Note 2 Earnings per share (EPS)	31 December 2021 $	31 December 2020 $
a. Gain / (loss) used in the calculation of basic EPS loss	1,174,605	(327,696)
	31 December 2021 No.	**31 December 2020 No.**
b. Weighted average number of ordinary shares after consolidation outstanding during the half-year used in calculation of basic EPS	675,461,039	400,624,990
	31 December 2021 ¢	**31 December 2020 ¢**
c. Basic and diluted EPS (cents per share)	0.17	(0.08)

Note 3 Cash and cash equivalents	Note	31 December 2021 $	30 June 2021 $
Cash at bank and on hand		3,459,837	3,254,023

Note 4 Financial assets	31 December 2021 $	30 June 2021 $
Current		
Investment in listed shares	900,000	1,035,000
	900,000	1,035,000

Stonehorse currently holds 45,000,000 Brookside Energy Limited (BRK) shares and 896,660 Dragon Mountain Gold Limited (DMG) shares. These shares are a financial asset through profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2021

Note 5 Trade and other payables

	31 December 2021 $	30 June 2021 $
Current		
Unsecured		
Trade payables	6,300	16,232
Accruals	19,489	82,309
Directors' fees accrual	203,379	228,379
Other	43,453	48,989
	272,621	375,909

Note 6 Issued capital

	Note	31 December 2021 No.	30 June 2021 No.	31 December 2021 $	30 June 2021 $
Fully paid ordinary shares at no par value		684,460,287	655,624,975	35,505,381	34,784,498
a. Ordinary shares					
At the beginning of the period		655,624,975	400,624,990	34,784,498	31,606,110
Shares issued during the period:					
Public offer		-	249,999,985	-	5,000,000
Exercise of options		28,835,312	-	720,883	-
Shares issued to vendors		-	5,000,000	-	100,000
Less: transaction costs		-	-	-	(1,921,612)
At reporting date		684,460,287	655,624,975	35,505,381	34,784,498

Note 7 Events subsequent to reporting date

The workover programme on Myall Creek-2 has been successfully completed, with the depleted Tinowon A reservoir now isolated. The previously un-produced Tinowon C reservoir has been perforated, completed for production and ready for future stimulation. A specialist pulsed neutron logging was also conducted during the workover operations over the Back Alley and Bandanna formations to ascertain gas saturation as future fracture stimulation targets. Log interpretation is currently underway.

The well has been reconnected to the gas gathering system and a 30-day in-line production test commenced on 17 January 2022. Initial gas flow rates are fluctuating between 200 – 400 MSCF/day with produced gas going to sales. 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.

Note 8 Commitments and contingences

There is no change in the Group's commitments or contingencies since the half year ended 31 December 2021 to date of this report.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2021

Note 9 Exploration and evaluation assets

	31 December 2021 $	30 June 2021 $
Balance at beginning of period	1,582,873	-
Add: Capitalised expenses	3,094,918	1,582,873
Less: Transfer to Producing assets	(4,027,634)	-
Total	650,157	1,582,873

The recoupment of costs carried forward in relation to the above areas of interest in the exploration phase is dependent on the successful development and commercial exploitation or sale of the respective area.

Note 10 Producing assets

	31 December 2021 $	30 June 2021 $
Balance at beginning of period	2,107,609	2,039,328
Add: Capitalisation of production expense	261,490	142,530
Add: Working interest purchased during the year	-	231,168
Add: Transferred from exploration and evaluation assets (note 9)	4,027,634	-
Less: Amortisation	(846,868)	(305,417)
Total	5,549,865	2,107,609

Note 11 Operating segments

Identification of reportable segments

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

Identification of reportable segments

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

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

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

Types of reportable segments

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

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2021

Accounting policies adopted

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

Segment assets

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

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

Segment liabilities

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

31 December 2021	Corporate $	Oil and Gas & Other US entities $	Total $
(i) Segment performance			
Segment revenue	-	2,456,967	**2,456,967**
Segment results	(398,651)	1,573,256	**1,174,605**
Included within segment result:			
- Amortisation expense	-	846,868	**846,868**
Segment assets	3,686,045	6,949,784	**10,635,829**
Segment liabilities	272,621	-	**272,621**

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

DIRECTORS' DECLARATION

The Directors of Stonehorse Energy Limited declare that:

1. The condensed financial statements and notes, as set out on pages 10 to 21, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standard AASB 134: Interim Financial Reporting; and
   b. give a true and fair view of the financial position as at 31 December 2021 and of the performance for the half-year ended on that date of the Group.
2. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

R. Gardner.

ROBERT GARDNER

Chairman

Dated this Friday, 11 March 2022

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

Report on the half-year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Stonehorse Energy Limited (the Company) and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance for the half-year ended on that date; and
b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' responsibility for the half-year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2021 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

HALL CHADWICK

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

Independence

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

Hall Chadwick

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

Nikki Shen

Nikki Shen
Director

Dated 11th March 2022