STONEHORSE ENERGY

ABN 13 086 972 429
(Formerly Nickelore Limited)

HALF-YEAR REPORT

31 December 2019

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
Telephone:	+61(0)8 9426 0666

HALF YEAR REPORT
31 DECEMBER 2019

Contents

Directors' report

Your Directors present their report together with the summary of the financial information of Stonehorse Energy Limited (Formerly Nickelore Limited) (the **Company** or **Stonehorse**) and its controlled entities (Group) for the half year ended 31 December 2019 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 Activities report for the half year ended 31ST December 2019.

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

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

CORPORATE ACTIVITIES

On the 9th August 2019 the Company;

1. Completed its 100% acquisition of Lone Star Energy Limited (Lone Star) and issued a total of 105,500,000 shares and 52,750,000 options (subject to shareholder approval) to the vendors of Lone Star pursuant to the vendor offer in the Prospectus dated 19th November 2018.
2. Completed a capital raise of $4,656,727 under the public offer via the issue of 232,836,367 shares at $0.02 per share.
3. Converted $200,000 of Convertible Notes plus $20,000 of accrued interest and issued 11,000,000 shares.

The Company re-listed on the ASX on the 16th August 2019 with a strategic and operational focus on US based oil and gas exploration and production.

On the 18th September 2019 the securities of the Company were suspended from quotation under Listing Rule 17.2 The Company subsequently withdrew from its earlier commitment to fund the initial sitework cost in exchange for a working interest in the well and the Company's shares were reinstated to official quotation on the 2nd October 2019.

OPERATIONAL ACTIVITIES

LS Operating (LSO) (a wholly owned subsidiary of Stonehorse Energy) has an agreement with BRK Oklahoma Holdings LLC (BRK OK) which underpins its oil and gas strategy whereby BRK OK can offer and LSO can elect to step-into working interests in well bore opportunities. No consideration is payable by LSO to BRK OK under the Step-in Agreement.

On 9th August 2019 the Company acquired the following two well bore interests as part of the acquisition of Lone Star Energy Limited.

Directors' report

Sutton #2H-52 Well – Located in Hansford County, Texas is a conventional horizontal well targeting the Marmaton formation in the Hansford oil and gas field in Hansford county, Texas. LS Operating has participated for a 25% Working Interest in the well which was spud in August 2017 subsequently completed and currently flowing back to sales.

Burgess #28-1Well -Located in Ellis County, Oklahoma is a conventional vertical well targeting the Morrow sands formation known to produce commercial quantities of natural gas. LS Operating has participated in 96.81% Working Interest in the well which is operated by Black Mesa Energy. The Well has now been drilled and successfully completed and is currently flowing back to sales. Gas production is currently coming from the Chester Zone. The Well also includes potential future oil production further up the Well in the Oswego zone.

On 15th October 2019 the Company elected (under the Step-in Agreement) to step-into the following working interests;

Bullard #1-18-07-UWH Well – The Company's 15.61% Non-operated Working Interest was acquired on the 24th October 2019 with an effective date of 1st November 2019. Located in Garvin County, Oklahoma is a conventional horizontal drilling oil and gas well targeting the Woodford shale in the SCOOP Play in the Anadarko Basin. The Well has now been producing for approximately 14 months having produced gross well volumes of 167,000 barrels of oil and 1.0 billion cubic feet of natural gas (335,000 BOE oil).

The well delivered an initial production rate (IP24) of 1,749 BOE per day (63% oil) and averaged 1,350 BOE per day in its first 90 days of production (62% oil). To date this well has delivered gross revenue of US$12.3m (representing 100% working interest before royalty payments at realised pricing of US$58/Bbl and US$1.61Mcf with the Well now expected to achieve payout in less than 2 years.

Henry Federal #1-8-5XH Well - Under the terms of the Step-in arrangement, Stonehorse exercised its option to step-into a 2.30% working interest in this well located in the southern STACK Play in the Anadarko Basin. Initial production (IP24)[1] of 1,319 Boe per day (65% oil) has been reported for this well.

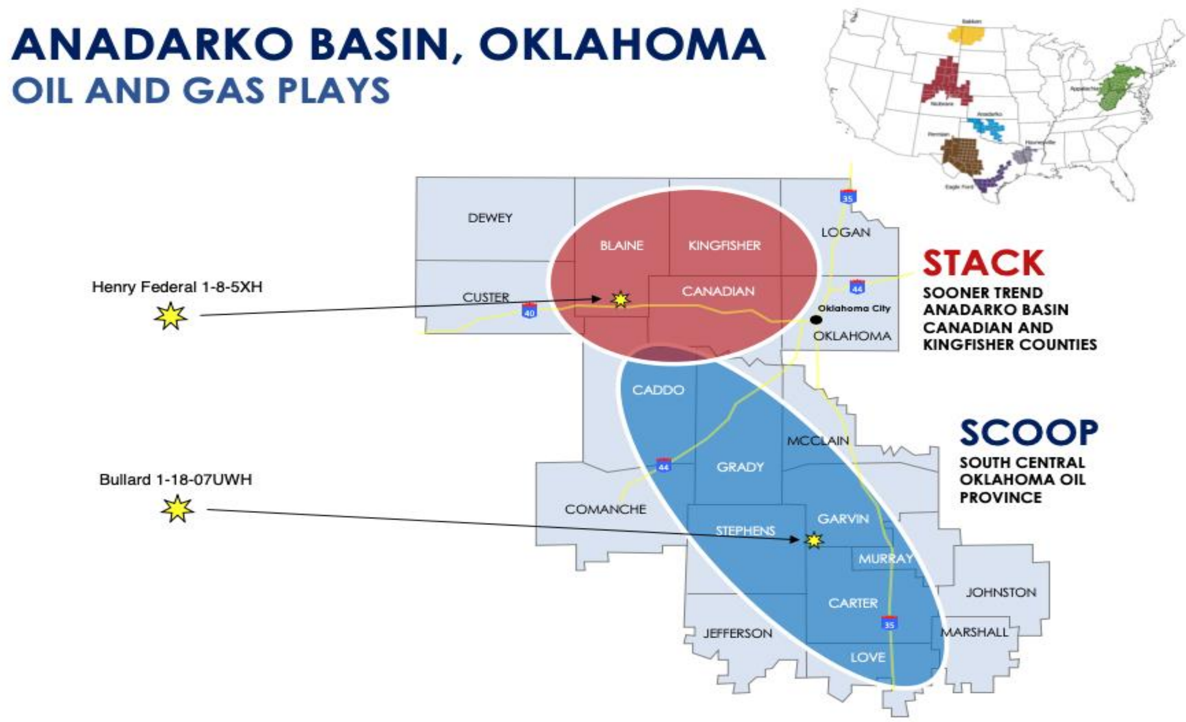

Figure 1. Map of the Bullard and Henry Federal well locations

[1] Stonehorse will have a 2.3% Working Interest in this extended lateral horizontal well that is producing from the Meramec formation at a depth of approximately 11,200 feet. Initial production (IP24) of 1,319 barrels of oil equivalent per day (65% oil) was reported for this well, comprising 861 barrels of oil and 2,747 Mcf gas. These rates were achieved via natural flow through a 38/64-inch choke."

3.2. Operating results

The loss of the Group for the half year amounted to $2,406,680 (2018: $399,749), 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

Stonehorse's net assets have increased by $4,966,393 from ($903,826) at 30 June 2019 to $4,062,567 at 31 December 2019.

As at 31 December 2019, the Group's cash and cash equivalents increase by $2,027,713 from $18,172 at 30 June 2019 to $2,045,885 and had a working capital surplus of $1,964,606 (30 June 2019: $903,826 working capital deficit).

4. Events subsequent to reporting date

On 21 January 2020, the Company finalised the step-in to a minority non-operated working interest (0.21%) in the Continental Resources, Inc. (NYSE: **CLR**) operated Randolph 1-34-27XHM well (**Randolph Well**) located in the STACK Play in the Anadarko Basin, Oklahoma.

Directors' report

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 2019 has been received and can be found on page 5 of the interim financial report.

R. Gardner

ROBERT GARDNER

Chairman

Dated this Friday, 13 March 2020

HALL CHADWICK

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 lead audit partner for the review of the financial report of Stonehorse Energy Limited for the half-year ended 31 December 2019, 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

NS

Nikki Shen
Director

Dated 13 March 2020

Statement of profit or loss and other comprehensive income

for the period ended 31 December 2019

	Note	2019 $	2018 $
Continuing operations			
Revenue		282,796	5
Less: Production costs		(126,142)	-
Gross profit		156,654	
Other income – shareholder loans forgiven		266,017	2,690
		422,671	2,695
Compliance costs	3.b	(20,441)	(114,784)
Computers and communications		(9,008)	(4,982)
Employee benefits expenses		(80,631)	(40,200)
Exploration and evaluation expenditure	4	(6,297)	(6,842)
Interest expense		(22,501)	(7,399)
Professional fees	3.a	(238,500)	(176,193)
Travel and accommodation		(20,519)	-
Other expenses		(22,846)	(52,104)
Foreign Exchange expense		(218)	-
Amortisation expense	13	(210,728)	-
Goodwill written off	14	(2,193,183)	-
Fair value loss		(4,479)	-
Loss before tax		(2,406,680)	(399,749)
Income tax		-	-
Loss from continuing operations		(2,406,680)	(399,749)
Net loss for the period		(2,406,680)	(399,749)
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		(2,406,680)	(399,749)
Loss per share:		¢	¢
Basic loss per share (cents per share)	2	(0.789)	(0.779)

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

Statement of financial position

for the period ended 31 December 2019

	Note	31 December 2019 $	30 June 2019 $
Current assets			
Cash and cash equivalents	5	2,045,885	18,172
Trade and other receivables	6	256,596	64,372
Financial assets	7	13,454	17,933
Loans		-	65,635
Total current assets		2,315,935	166,112
Non-current assets			
Producing assets	13	2,097,961	-
Total non-current assets		2,097,961	-
Total assets		4,413,896	166,112
Current liabilities			
Trade and other payables	8	292,135	695,704
Short-term financial liabilities		59,194	374,234
Total current liabilities		351,329	1,069,938
Total liabilities		351,329	1,069,938
Net assets/(liabilities)		4,062,567	(903,826)
Equity			
Issued capital	9	31,561,528	24,648,133
Reserves		459,679	-
Accumulated losses		(27,958,639)	(25,551,959)
Total equity / (deficiency)		4,062,568	(903,826)

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

Statement of changes in equity

for the period ended 31 December 2019

	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total $
Balance at 1 July 2018		24,648,541	(24,913,372)	-	(264,831)
Loss for the year		-	(399,749)	-	(399,749)
Other comprehensive income for the year		-	-	-	-
Total comprehensive loss for the year		-	(399,749)	-	(399,749)
Transaction with owners, directly in equity					
Shares issued during the year		-	-	-	-
Transaction costs		-	-	-	-
Balance at 31 December 2018		24,648,541	(25,313,121)	-	(664,580)
Balance at 1 July 2019		24,648,133	(25,551,960)	-	(903,826)
Loss for the period		-	(2,406,680)	-	(2,406,680)
Other comprehensive income for the year		-	-	-	-
Total comprehensive loss for the year		-	(2,406,680)	-	(2,406,680)
Transaction with owners, directly in equity					
Shares issued during the period		4,656,727	-	-	4,656,727
Options issued during the period		-	-	459,678	459,678
Transaction costs on share issue		(133,750)	-	-	(133,750)
Conversion on Convertible Loans		280,418	-	-	280,418
Issue of shares on acquisition of Lone Star Energy Limited		2,110,000	-	-	2,110,000
Balance at 31 December 2019		31,561,528	(27,958,639)	459,678	4,062,567

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

Statement of cash flows

for the period ended 31 December 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		410,703	-
Payments to suppliers and employees		(1,237,614)	(264,789)
Interest received		-	5
Payments for exploration expenditure		(6,297)	(5,742)
Net cash used in operating activities		(833,208)	(270,526)
Cash flows from investing activities			
Loans provided		-	(20,754)
Payments for producing assets		(1,662,409)	-
Net cash used in investing activities		(1,662,409)	(20,754)
Cash flows from financing activities			
Proceeds from issue of shares, net of share issue costs		4,656,727	-
Proceeds from borrowings		-	125,000
Costs of issue		(133,397)	-
Net cash from financing activities		4,523,330	125,000
Net increase/(decrease) in cash held		2,027,713	(166,280)
Cash at the beginning of the period		18,172	168,972
Cash at the end of the period	5	2,045,885	2,692

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 2019

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 14 March 2020 by the directors of the Company.

a. Basis of preparation

This interim financial report is intended to provide users with an update on the latest annual financial statements of Stonehorse Limited. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in combination with the annual financial statements of the Group for the year ended 30 June 2019, 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 condensed 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.

Stonehorse's net assets have increased by $4,966,393 from ($903,826) at 30 June 2019 to $4,062,567 at 31 December 2019.

As at 31 December 2019, the Group's cash and cash equivalents increase by $2,027,713 from $18,172 at 30 June 2019 to $2,045,885 and had a work capital surplus of $1,964,606 (30 June 2019: $903,826 working capital deficit).

iv. Basis of Consolidation

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

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

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above. When the Company has less than a majority of the voting rights if an investee, it has the power over the investee when the voting rights are

sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including:

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

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

Changes in the Company's ownership interest in existing subsidiaries

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

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

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

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

v. Financial Instruments

a. Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

b. Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

c. Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

i. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises

ii. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

d. Impairment

The Group assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

vi. 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.

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. 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.

ix. 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 2019 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.

Key Estimate – Goodwill

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

c. **Adoption of new and revised accounting standards**

In the half year ended 31 December 2019, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2020. It has been determined by the Group that, there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Group accounting policies.

Note 2 Earnings per share (EPS)

	Note	31 December 2019 $	31 December 2018 $
a. Loss used in the calculation of basic EPS loss		(2,406,680)	(399,749)
		31 December 2019 No.	**31 December 2018 No.**
b. Weighted average number of ordinary shares after consolidation outstanding during the half-year used in calculation of basic EPS		305,049,148	51,288,623
		31 December 2019 ¢	**31 December 2018 ¢ (restated)**
c. Basic and diluted EPS (cents per share)		(0.789)	(0.779)

Note 3 Loss Before Income Tax

	31 December 2019 $	31 December 2018 $
The following significant revenue and (expense) items are relevant in explaining the financial performance:		
a. Legal and professional fees:		
Legal and professional fees as follows are in relation to the proposed acquisition of other entities		
Legal	62,629	143,700
Professional Services	175,871	32,493
	238,500	176,193
b. Compliance costs expenses:		
Company Secretary expense	-	23,799
ASX fees	15,876	85,974
ASIC fees	4,565	5,011
	20,441	114,784

Note 4 Exploration and evaluation expenditure

	31 December 2019 $	31 December 2018 $
a. Exploration and evaluation expenditure		
Exploration expenditure	6,297	6,842
Total exploration and evaluation expenditure	6,297	6,842

b. **Cumulative exploration and evaluation expenditure**	Tenement acquisition expenditure $	Exploration and evaluation expenditure $	Cumulative exploration and evaluation expenditure $
Cumulative expenditure at the beginning of half-year	295,200	2,369,400	2,664,600
Expenditure incurred and expensed for the half-year	-	6,297	6,297
Cumulative expenditure to the end of half-year	295,200	2,375,697	2,670,897

c. All exploration and evaluation expenditure is expensed as incurred

Note 5 Cash and cash equivalents

	Note	31 December 2019 $	30 June 2019 $
Cash at bank and in hand		2,045,885	223
Trust account		-	17,949
		2,045,885	18,172

a. The Group holds a trust account for the purposes of an unmarketable parcel share sale.

Note 6 Trade and other receivables

	31 December 2019 $	30 June 2019 $
Current		
GST Refundable	13,274	15,645
Prepayment	12,500	48,727
Revenue Receivable	230,822	-
	256,596	64,372

Notes to the financial statements
for the period ended 31 December 2019

Note 7 Financial assets

	Note	31 December 2019 $	30 June 2019 $
Current			
Dragon Mountain Gold Limited (**DMG**) shares		13,454	17,933
		13,454	17,933

a. Stonehorse currently holds 896,660 DMG shares. The fair value of DMG fully paid ordinary shares at 31 December 2019 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.

Note 8 Trade and other payables

	31 December 2019 $	30 June 2019 $
Current		
Unsecured		
Trade payables	59,889	315,337
Accruals	64,150	66,189
Directors' fees accrual	161,739	285,175
Other	6,357	29,003
	292,135	695,704

Notes to the financial statements

for the period ended 31 December 2019

Note 9 Issued capital	**Note**	31 December 2019 No.	30 June 2019 No.	31 December 2019 $	30 June 2019 $
Fully paid ordinary shares at no par value		400,624,786	51,288,623	31,561,528	24,648,133

	6 months to 31 December 2019 No.	12 months to 30 June 2019 No.	6 months to 31 December 2019 $	12 months to 30 June 2019 $
a. **Ordinary shares**				
At the beginning of the period	51,288,623	307,731,740	24,648,133	24,648,541
Shares issued during the period:				
Consolidation 6:1	-	(256,443,117)	-	-
Public offer	243,825,163	-	4,656,727	-
Conversion of convertible note	11,000	-	280,418	-
Shares issued to vendors	105,500,000	-	2,110,000	-
Less: transaction costs	-	-	(133,750)	(408)
At reporting date	400,624,786	51,288,623	31,561,528	24,648,133

Note 10 Events subsequent to reporting date

On 21 January 2020, the Group finalised the step-in to a minority non-operated working interest (0.21%) in the Continental Resources, Inc. (NYSE: **CLR**) operated Randolph 1-34-27XHM well (**Randolph Well**) located in the STACK Play in the Anadarko Basin, Oklahoma.

Notes to the financial statements

for the period ended 31 December 2019

Note 11 Commitments and contingences

There is no change in the Group's commitments or contingencies since the half year ended 31 December 2019 to date of this report.

Note 12 Related party transactions

a. Key management personnel (KMP) compensation

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

	31 December 2019 $	31 December 2018 $
Directors' fees	74,267	40,200
Total	74,267	40,200

i. All fees have been accrued since November 2011; no fees have been settled in cash.

b. KMP accrued director fees payable

	31 December 2019 $	30 June 2019 $
Robert Gardner	209,550	184,800
David Deloub	-	59,800
Paul Piercy (former director)	-	31,250
Jay Stephenson	-	45,375
Total	209,550	321,225

Note 13 Producing assets

	31 December 2019 $	30 June 2019 $
Balance at beginning of period	-	-
Add: Acquisition of Lone Star Energy Limited	646,280	-
Add: Acquisition of Bullard Well	1,403,017	-
Add: Acquisition of Henry Federal Well	259,393	-
Less: Amortisation	(210,728)	-
Total	2,097,961	-

Note 14 Business Combinations

Acquisition

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

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

Assets acquired and liabilities assumed at the date of acquisition

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

Goodwill arising on acquisition

The goodwill of $2,193,183 was written off to the profit and loss statement during the half year ended 31 December 2019.

Note 15 Operating segments

a. Identification of reportable segments

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

Identification of reportable segments

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

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

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

Types of reportable segments

a) Oil and gas exploration: Segment assets, including acquisition cost of exploration licenses and all expenses related to the projects in the USA are reported on in this segment.

b) Corporate, including treasury, corporate and regulatory expenses arising from operating an ASX listed entity. Segment assets, including cash and cash equivalents, and investments in financial assets are reported in this segment.

Basis of accounting for purposes of reporting by operating segments.

Accounting policies adopted

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

Segment assets

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

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

Segment liabilities

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

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

31 December 2018	Corporate $	Oil and Gas & Other US entities $	Total $
(i) Segment performance			
Segment revenue	5	-	**5**
Segment results	(399,749)	-	**(399,749)**
Included within segment result:			
- Interest Revenue	5	-	**5**
Segment assets	156,787	-	**156,787**
Segment liabilities	821,367	-	**821,367**

Directors' Declaration

The Directors of Stonehorse Limited declare that:

1. The condensed financial statements and notes, as set out on pages 5 to 23, 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 2019 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, 13 March 2020

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 2019, 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 2019 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 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Hall Chadwick

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

NS

Nikki Shen
Director

Dated 13 March 2020