



STONEHORSE

E N E R G Y

October 30 2020

QUARTERLY ACTIVITIES REPORT

FOR THE THREE MONTHS ENDING 30th SEPTEMBER 2020.

Stonehorse Energy Limited (**ASX:SHE**) (**Stonehorse** or the **Company**) is pleased to present this Quarterly Report for the quarter ended 30th September 2020.

CORPORATE ACTIVITIES

The Directors are monitoring the situation closely and review the impact of COVID-19 on the Company's business. However, the situation is continually evolving, and the consequences are therefore inevitably uncertain. This uncertainty and the impact of the global slowdown is having on economic activity continues to cause increased volatility in commodity markets.

Corporately, the Company is actively reviews its non-operational expenses including its general administrative and corporate overhead expenses. The Company will continue to provide updates in regard to the impact of COVID-19 on its operations, and work programs.

OPERATIONAL ACTIVITIES

The Company continues to generate operating revenue through its working interests in producing oil and gas wells located in the Anadarko Basin, Oklahoma.

On the 20th July 2020 the Orion Project Joint Venture successfully acquired a 43.45% interest in the Newberry Well (and its associated acres) located in the Jewell Unit in the SWISH AOI in the southern part of the SCOOP Play.

This vertical well (completed in the Sycamore Formation) which was drilled on an 80-acre spacing unit, holds these acres by production (**HBP Acres**) i.e. no acreage term or further drilling obligations.

LS Operating (LSO) (a wholly owned subsidiary of Stonehorse Energy has an agreement with BRK Oklahoma Holdings LLC (BRK OK) underpinning its oil and gas strategy LSO can elect to step-into working interests in well bore opportunities offered by BRK OK. No consideration is payable by LSO to BRK OK under this Agreement. This Agreement provides the company with access to a pipeline of well bore opportunities in the highly prospective Anadarko Basin in Oklahoma, USA.



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

On 18th August 2020 the Orion Joint Venture successfully closed its second producing property acquisition (Mitchell 21-1). This well is located in Carter County within the Jewell wells spacing unit in the SWISH area of interest. This well is a vertical well that was drilled on an 80 acres spacing unit in the early 80's and completed in the Sycamore formation.

Production records show that the Mitchell 12-1 well has produced almost 224,000 boe since inception. A successful workover is expected to deliver a rate of return in the mid 30% range and achieve payout in approximately 2.5 years. The costs associated with the acquisition of the well and the workover will be met by the joint venture partners on a 50/50 basis.

Workover operations were completed in September including; inspection and repair of both surface and down hole production equipment, swab testing and water removal. With rig operations now complete a pumping unit has been acquired and moved onto the location. Initial test results are encouraging with gas production sales expected this quarter.

The successful restoration of production in the Mitchell well, when added to the production contributed by the successful workover of the Newberry well provides the opportunity to hold up to 160 acres in the Jewell DSU.

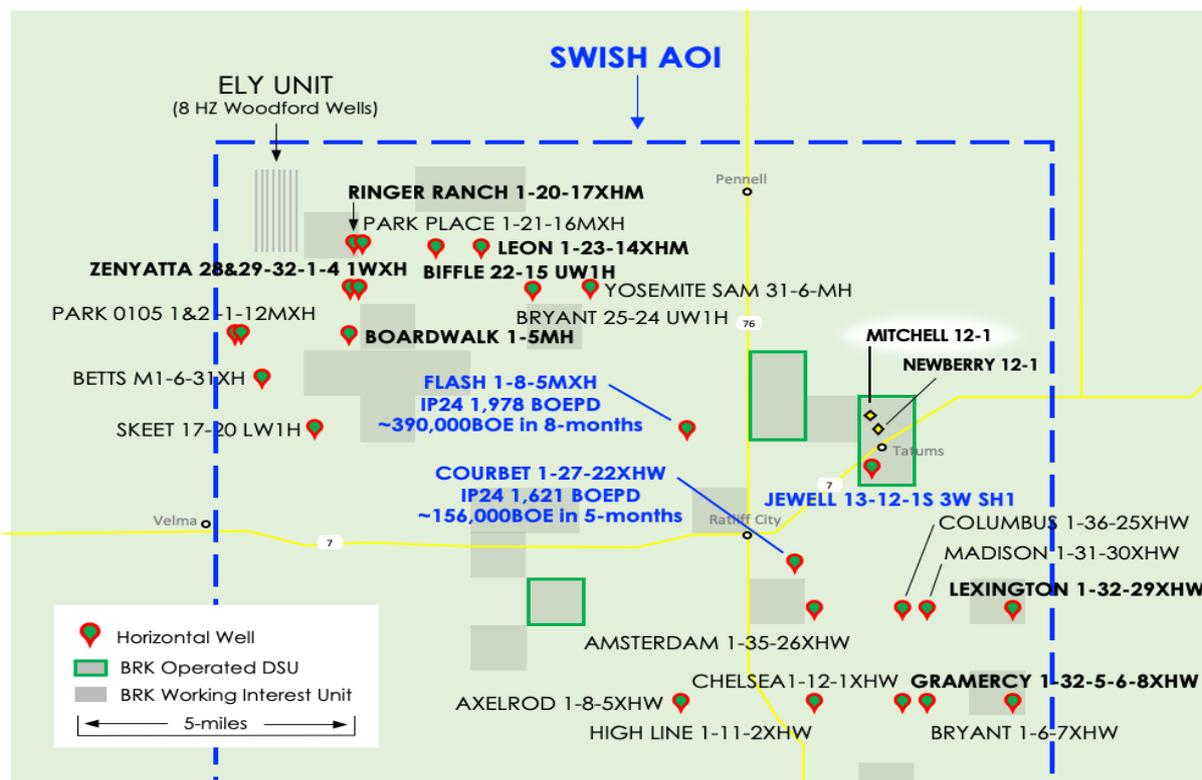


Figure 1. Activity map showing location of Newberry and Mitchell wells in relation to the proposed JEWEL well.



The Joint Venture is continuing to work up a pipeline of opportunities that can be pursued during this period in the cycle. In this regard, the Black Mesa team have identified a number of potential acquisition targets within the SWISH AOI that satisfy the Joint Venture's investment hurdles and work to advance these opportunities and add to the list of targets is ongoing.

Scale is the key to the Orion Project with both joint venture companies well funded and working diligently to build out the portfolio as opportunities arise.

Stonehorse's share of gross revenue from oil and gas sales for the third quarter of 2020 averaged approximately US\$20,000 per month. The ~50% reduction in revenues from the June quarter reflect the flow on effects of the significant oil price reduction experienced through March and June quarters in 2020.

CURRENT PORTFOLIO OF OIL AND GAS WELL ASSETS

Stonehorse currently has working interests in five producing wells and a 50% working interest currently in two workover wells as part of the Orion Joint Venture.

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

Table 1. Current Portfolio of Stonehorse and Orion JV wells (by Working Interest)



SUBSEQUENT EVENTS

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

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

This third acquisition (in less than four months) expands on the Orion Project's scope and scale by adding virgin proven undeveloped (PUD) reservoirs and their untapped volumes to future potential production. The footprint of the Orion Project has now been expanded to encompass a new area outside of the SWISH AOI with considerable upside potential from additional PDP acquisitions and/or development opportunities.

Workover operations are set to commence shortly with a rig expected to be moved on location later this month.

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 \$146,000. 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 expenditure for the quarter was Nil. There were no substantive exploration activities during the quarter.
3. ASX Listing Rule 5.4.4 – The Company provides the actual vs proposed use of Funds as outlined in Section 2.9 of the Prospectus dated 19 November 2018.

Proposed Use of Funds	Proposed \$	Actual \$	Variance
Exploration Expenditure	\$2,799,682	\$2,038,000	\$761,682
Expenses of the Offer	\$537,700	\$399,000	\$138,700
Repayment of Loans	\$200,000	Nil	\$200,000
Administration costs	\$600,000	\$872,000	-\$272,000
Working Capital	\$62,618	-\$658,000	\$720,618
Investments	Nil	150,000	-\$150,000
Total	\$4,200,000	\$2,801,000	\$1,399,000

4. Major variances in the above table relate to timing of actual spend. The proposed spend is for a two-year period. Repayment of Loans is favorable as the Loans were forgiven at the time of re-quotations.
5. ASX Listing Rule 5.4.5 – Payments to related parties of the Company during the quarter and outlined in the Appendix 5B include \$23,947 for Director Fees.

This release is authorised by the Board.

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About Shonehorse 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 be cashflow accretive by building a portfolio of working interests in high quality producing 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
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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".
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Mboe	1,000 barrels of oil equivalent
Mcf	1,000 cubic feet (of gas)
MMboe	1,000,000 barrels of oil equivalent
STACK	S ooner T rend A nadarko Basin C anadian and K ingfisher Counties – oil and gas play in the Anadarko Basin Oklahoma
SCOOP	S outh C entral O klahoma O il P rovince - oil and gas play in the Anadarko Basin Oklahoma
SWISH AOI	Description of Brookside's Area of Interest in the SCOOP Play
Working Interest	Percentage of ownership in a lease granting its owner the right to explore, drill and produce oil and gas from a tract of property. Working interest owners are obligated to pay a corresponding percentage of the cost of leasing, drilling, producing and operating a well or unit
IP24	Initial Production Rate, measured over a 24-hour period

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")

30 September 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	83	83
1.2 Payments for		
(a) exploration & evaluation	(20)	(20)
(b) development	(9)	(9)
(c) production	(39)	(39)
(d) staff costs	-	-
(e) administration and corporate costs	(99)	(99)
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 (ATO Payments / Receivables)	-	-
1.9 Net cash from / (used in) operating activities	(84)	(84)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation	(78)	(78)
(e) investments	(150)	(150)
(f) other non-current assets	-	-

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 (3 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(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	(228)	(228)

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	-	-
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	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,136	2,136
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(84)	(84)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(228)	(228)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

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 (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(16)	(16)
4.6	Cash and cash equivalents at end of period	1,808	1,808

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	1,788	1,788
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)	1,808	1,808

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	24
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.

The fees in 6.1 above are Director Fees.

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. 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)	(84)
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(78)
8.3 Total relevant outgoings (item 8.1 + item 8.2)	(162)
8.4 Cash and cash equivalents at quarter end (item 4.6)	1,808
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	1,808
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	11.16
<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: NA	
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: NA	

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: NA

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: 30 October 2020

Authorised by: The Board of Directors
(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.