For personal use only

Hydrocarbon Dynamics

29 October 2020

September 2020 Quarterly Activities and Cash-Flow Report

Summary

- Field trial in Canada continues successfully
- New Strategic Plan implementation progresses
- Rights Issue announced
- Gulf of Mexico and Eastern Europe trials still await start dates

Successful Field Trial in Canada Continues

Further to the announcements on 29 July 2020 and 12 October 2020, Hydrocarbon Dynamics Limited ("HCD") received a second repeat order from one of its new distributors in Western Canada associated with a trial in Alberta. The pilot is with a midcap Canadian oil and gas producer which wanted to remediate and inhibit paraffin deposition issues plaguing wells and flowlines by using HCD Multi-Flow®. The trial was expanded in late July after positive results when the trial was expanded to a total of 15 wells. The distributor has reported the following results for the project:

- Production increased an average of ~12% across all wells
- Operating cost reduction projected to be >$0.50/ BOE
- Significant reduction in quantity of chemical used (250ppm vs. ~1,250ppm)
- Hot oiling has not been needed since HCD Multi-Flow applied
- Extended the time between solvent soaks
- Reduced frequency of pigging - 'pigs have never looked cleaner'
- Ceased need for demulsifier

The distributor has placed an order for a further ~A$80,000 of product largely to continue treatment at the project discussed above. Continued success will improve the likelihood of both ongoing sales for this application as well as securing trials and sales to this producer in other larger producing fields. Additional product was ordered by the distributor in anticipation of being awarded several new trials in Canada. Should the distributor be awarded any new trials HCD will inform the market.

Continued Implementation of New Strategic Plan

In the March quarter HCD announced a new strategic plan that included product re-branding, product re-pricing, cost reductions and a sales model based completely on the appointment of professional agents and distributors rather than salaried sales staff.

The new distributorship model implementation has progressed well, with five new strategic Distributors already confirmed in North America and ongoing discussions with several other companies. These Distributors bring considerable production chemical treatment knowledge and experience as well as vital relationships with key oil & gas operators.

For personal use only

General Update

HCD's marketing efforts continue to be effected by difficult industry conditions associated with relatively low oil prices and lower oil demand triggered by the COVID-19 pandemic. We continue to note a significant impact on our oil producing clients and potential customers which has led to the postponement of previously anticipated trials and several marketing initiatives. HCD's Colombian agent will not be able to renew their commission arrangements due to difficult local oil industry circumstances. HCD will seek to resume the promising sales efforts in Colombia when the situation improves. While the initiatives in the Middle East and India are progressing slowly, it is pleasing to note that the Canadian trial continues to progress alongside new sales initiatives and while HCD has not been given a start date for Gulf of Mexico offshore flowline, commencement remains possible late in the December Quarter.

Utah Project Farm-Out

HCD has not progressed binding agreements associated with the two Memoranda of Understandings ("MOU") entered into with Valkor Technologies LLC ("Valkor") whereby Valkor could earn an interest in HCD's Utah project by funding the next two phases of exploration, appraisal and development. The MOU's are not binding and the lack of progress has created uncertainty as to whether final agreements will be completed.

Financial

On 8 October HCD announced a 1 for 5 non-renounceable Rights Issue at 2 cents per share with one free attaching option for every two shares subscribed for, exercisable at 3 cents and expiring 31 October 2022. The issue price of the Rights Issue is a 37% discount to the prevailing share price of 3.2 cents and will raise up to $1.39 million.

The Record Date for eligibility to participate in the Rights Issue was 26 October 2020 with the offer opening on 27 October and closing on 17 November 2020. All eligible directors have indicated that they will participate in the Rights Issue with the Chairman offering to underwrite up to 20% of the issue. HCD will seek to place any shortfall with sophisticated investors, Peloton Capital will assist as the broker.

This small capital raise is being undertaken to provide a degree of financial security at a time when the outlook for financial markets remains volatile. The funds raised will be applied to working capital and to give the company flexibility when reviewing upstream opportunities.

The Company received orders for $80,000 of product and received revenues of $22,000 for sale of products for the Quarter. Additionally, orders for a further A$95,000 of product were received post quarter end. At 30 September 2020, HCD had cash resources of approximately $1.15m.

Hydrocarbon Dynamics

Oil and Gas Tenements as at 30 September 2020

Project	Location	Interest acquired or disposed of during the quarter net to HCD	Total acres owned net to HCD	Working Interest held as at 30 September 2020
Kentucky	Butler and Warren Counties, Kentucky	-	1,843	100%
Utah	Uintah, County	-	3,459	100%

For further information please contact:

Stephen Mitchell
Chairman
Hydrocarbon Dynamics Limited

Julie Edwards
Company Secretary
Hydrocarbon Dynamics Limited

Telephone: +61 3 9642 2899
Website: www.hydrocarbondynamics.com

ASX Code: HCD

For personal use only

Appendix 5B

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

Name of entity

Hydrocarbon Dynamics Limited

ABN	Quarter ended ("current quarter")
75 117 387 354	30 September 2020

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	22	45
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(9)	(149)
	(b) development		
	(c) production	(11)	(151)
	(d) staff costs	(149)	(731)
	(e) administration and corporate costs	(84)	(441)
1.3	Dividends received (see note 3)		
1.4	Interest received	1	8
1.5	Interest and other costs of finance paid	(2)	(2)
1.6	Income taxes paid		
1.7	Government grants and tax incentives	-	265
1.8	Other (Royalty)	(68)	(215)
1.9	**Net cash from / (used in) operating activities**	**(300)**	**(1,371)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) exploration & evaluation (if capitalised)	-	(32)
	(e) investments		
	(f) other non-current assets		

For personal use only

For personal use only

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 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**	**-**	**(32)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	945
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	(24)	(24)
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**	**(24)**	**921**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	1,470	1,628
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(300)	(1,371)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(32)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(24)	921

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**1,146**	**1,146**

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	375	119
5.2	Call deposits	771	1,508
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**1,146**	**1,627**

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	(468)
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

For personal use only

7.	**Financing facilities** *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.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
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)	(300)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	-
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(300)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	1,146
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	1,146
8.7	**Estimated quarters of funding available (Item 8.6 divided by Item 8.3)**	3.82

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

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?

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?

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

For personal use only

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: 29 October 2020

Authorised: By the Board

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.

For personal use only