

31 July 2020

June 2020 Quarterly Activities and Cash-Flow Report

Summary

- Field trial in Canada leads to repeat order
- Several drums purchased for Eastern European trial
- New Strategic Plan implementation commenced
- Firm orders for ~\$80,000 received post quarter end
- Rights Issue successfully concluded with strong shareholder support
- Gulf of Mexico offshore trial moves forward with mid-sized producer

Successful Field Trial in Canada Leads to Repeat Order

HCD product is being trialled in Alberta by a mid-sized producer (C\$950m market cap).

Positive results to date on the initial 5 wells tested have led to expansion of the trial to 16 wells with an additional A\$55,000 of product being ordered. The objectives of the trial are to reduce the volume of chemical required, reduce treatment costs, improve chemical handling, and reduce the need for secondary remediation techniques such as pigging and solvent soaks.

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.

The early success in the current trial is a direct result of the new strategy and Distributorship business model adopted by HCD and implemented by our new Chemical Division CEO, Bill Tarantino.

Multi-Flow Purchase for East European Trial

Four drums of HCD product have been purchased to trial on heavy oil wells by an oil & gas company in Eastern Europe. The purpose of the trial is to clean wellbore and production tubing needed to restore production and eliminate the need for hot oiling. HCD Multi-Flow was selected for the trial due to its ability to liquify asphaltene and paraffin deposits and reduce heavy oil viscosity.

A successful trial will likely open the door to treat the bulk of the wells in this producer's heavy oil production fields.

Implementation of New Strategic Plan

Last quarter HCD announced the outcome of a detailed strategic review which was undertaken by the new CEO of its chemical division and subsequently endorsed by the board. The new strategic plan includes 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 and vital relationships with key oil & gas operators.

The new branding imperative has been finalised and we continue to advance initiatives to build our market communications. The focus of these efforts is to deliver our Distributors the tools needed to drive market penetration with consistent and clear messaging.

Our strategy also includes innovation through new product development. We are expanding our product line to enhance our offering and to target specific oilfield market segments.

The new strategy being adopted reduces fixed costs by up to \$1 million/year and is expected to extend the sales reach for the Company's products.

Field Trial Update

HCD has observed slightly improved industry conditions as oil demand and prices start to recover from the harsh market conditions triggered by the COVID-19 pandemic. However, we continue to note a significant impact on our oil producing clients and potential customers. Whilst a number of previously anticipated trials have been delayed it is pleasing to note that the Canadian trial referenced above has progressed, and that an expected Gulf of Mexico offshore flowline trial is expected during the next quarter with a potential to trial two additional assets.

Utah Project Farm-Out

HCD announced on March 2nd that it had signed two Memoranda of Understandings ("MOU") with Valkor Technologies LLC ("Valkor") whereby Valkor can 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 both HCD and Valkor continue to work on finalising binding agreements.

In the first MOU Valkor will initially fund the drilling and production testing of three vertical wells or one vertical well and one horizontal well, utilising HCD Multi-Flow as part of the trial. Should Valkor complete this within 12 months, they will have the right earn up to a 65% interest by funding a continuous drilling programme of an additional 2 vertical wells or one horizontal well per quarter. The MOU relates to the deeper oil sands within HCD's leases.

In the second MOU Valkor can earn up to an 87.5% interest in the shallow ("mineable") oil sands in HCD's Utah leases by initially completing a preliminary study to determine the feasibility to mine the oil sands within the leases. Valkor will also spend a minimum of US\$250,000 assessing the applicability of HCD Multi-Flow in the mining process. To earn its interest Valkor will then need to engineer, install and operate the oil sands mining and processing facilities.

Financial

During the Quarter HCD completed a 1 for 5 non-renounceable Rights Issue at \$0.015/share and raised a total of \$944,787 after accepting over-subscriptions of \$98,550. All HCD directors participated in the issue.

The Company received revenues of \$8,000 for sale of products for the Quarter with firm orders for ~A\$80,000 received post quarter end. At 30 June 2020, HCD had cash resources of approximately \$1.4m.

Oil and Gas Tenements as at 30 June 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 31 December 2019
Kentucky	Butler and Warren Counties, Kentucky	-	1,843	100%
Utah	Uintah, County	-	3,459	100%

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ASX Code: HCD

Appendix 5B

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

Name of entity

Hydrocarbon Dynamics Limited

ABN

75 117 387 354

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8	23
1.2 Payments for		
(a) exploration & evaluation (if expensed)	(17)	(140)
(b) development		
(c) production	(15)	(140)
(d) staff costs	(220)	(582)
(e) administration and corporate costs	(227)	(357)
1.3 Dividends received (see note 3)		
1.4 Interest received	5	7
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives	265	265
1.8 Other (Royalty)	(75)	(147)
1.9 Net cash from / (used in) operating activities	(276)	(1,071)
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)	(32)
(e) investments		
(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 (6 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)	(32)

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

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	833	1,628
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(276)	(1,071)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(32)	(32)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	945	945

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,470	1,470

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	494	119
5.2	Call deposits	976	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)	1,470	1,627

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
(357)
-

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

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)	(520)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	-
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(520)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	1,470
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	1,470
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	2.83

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?	

Compliance statement

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

Date: 31 July 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.