WINCHESTER ENERGY LIMITED

ACN 168 586 445

HALF YEAR FINANCIAL REPORT

Half year ended 30 June 2018

ASX Code: WEL

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CORPORATE INFORMATION

Directors

Mr John Kopcheff
Mr Peter Allchurch
Mr Neville Henry
Mr James Hodges
Mr Larry Liu

Company Secretary

Mr Lloyd Flint

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Share register

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Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008 Australia

ASX Code: WEL

DIRECTORS' REPORT

Your Directors submit their report for the period from 1 January 2018 to 30 June 2018.

The names of Directors in office at any time during or since the end of the period are:

Mr John Kopcheff	Non-Executive Chairman
Mr Peter Allchurch	Non-Executive Director
Mr Neville Henry	Managing Director
Mr James Hodges	Independent Non-Executive Director
Mr John D. Kenny	Non-Executive Director – resigned 22 May 2018
Mr Larry Liu	Non-Executive Director

Directors were in office for this entire period unless otherwise stated.

Review of Operations

The half year ending 30 June 2018 saw the Company undertake drilling and completion activities as operator on the White Hat Ranch oil and gas lease located in the eastern shelf of the Permian Basin in central west Texas, USA.

Winchester has a 75% working interest (WI) and operatorship of the White Hat Ranch lease in approximately 7,400 acres with CEGX holding various working interests between 40 -50% in approximately 1,200 acres. Winchester also has a WI in five other leases adjacent to the White Hat Ranch oil and gas lease all of which contain the highly prospective Ellenburger Formation along with several other overlying shallow oil-producing formations.

The Eastern Shelf has multiple, stacked reservoirs and Winchester has high confidence that the Eastern Shelf of the Permian Basin and in particular its leased acreage of 17,402 net acres in Nolan County has significant oil resource potential across a host of historically producing formations such as the Ellenburger, the Fry/Strawn Sands as well as the thick Penn Carbonate, Wolfcamp "D" organic shales, Crystal Falls (Canyon) and Cisco formations. These are located between 4,000 – 7,500 feet and can be targeted with modest drilling and completion cost, supported by existing infrastructure.

Total Oil Production

The following gross oil production for the half ending 30 June 2018 (March and June 2018 quarters) across all oil wells in which Winchester has a working interest was recorded for the Company:

Gross Oil Production (bo)*	June Quarter 2018	March Quarter 2018	December Quarter 2017	September Quarter 2017	June Quarter 2017
Oil Production (Gross 100%WI)	**12,660**	**15,277**	17,164	27,806	39,533
Oil Sales (Gross 100%WI)	**14,210**	**15,049**	18,022	27,409	39,833
Net Oil Production to Winchester (bo) (50% Working Interest)*					
Quarterly Oil Production (Net)	**6,346**	**7,658**	8,582	13,903	19,766
Quarterly Oil Sales (Net)	**6,969**	**7,561**	9,011	13,704	19,916

** Please note that all oil and gas production is subject to royalty payments to the oil and gas rights owners. The figures represented above are for oil production only (and exclude gas sales) and are pre-royalty.*

In summary the Company is building a strong production base with good cash flow, it has secured a significant acreage position that can be held in its entirety at low cost.

Company Strategy

Following the second Ellenburger horizontal well, in which the results in the short radius horizontal wells have failed to meet expectations, Winchester's efforts will be refocused on a vertical drilling program in its oil producing formations. This program is designed to best exploit multiple reservoir "stacked" targets in the Wolfcamp "D" organic shales, Lower Pennsylvanian and Ellenburger formations.

Winchester is currently seeking interest from prospective farm in partners to explore and exploit its 17,402 net acre lease position. This large acreage position is enhanced by the 65,000 acres of 3D seismic that covers all Winchester's acreage and significant offset acreage. A significant cost reduction programme has been implemented, this, together with ongoing oil and gas revenues, will enable the Company to pursue the identified opportunities in oil-bearing formations overlying the Ellenburger and provide time to pursue farm in partners, assuming no major reduction in the price of oil or monthly production.

Winchester will now aggressively pursue potential farmout drilling opportunities with the aim for farmout drilling to commence prior as soon as possible.

Winchester is also continuing work on refining the Ellenburger vertical development plan based on a statistical drilling approach. A substantial resource with economic value is interpreted if development drilling when implemented is successful.

Stacked Pay Opportunities

Within the White Hat Ranch oil and gas lease there are several intervals with development potential. This has become particularly significant given the production rate observed from a sand unit within the Strawn Formation in the White Hat 20#2 well. This well, which was fracture stimulated, continues after nearly a year of production to be an excellent producer at 45 bopd and has produced approximately 30,000 barrels of oil.

As well as other intervals within the Strawn Formation, other prospective units include the Wolfcamp "D" high total organic carbon shale intervals - Three Fingers Shale and Lower Penn Shale within the Cline Shale Formation and several intervals within the Canyon Sands package.

The Barnett equivalent shales overlying the Ellenburger have high organic material and are expected to become a potential unconventional resource within Winchester's acreage position. Several of these formations have already produced significant oil and gas from Nolan County and other areas within the Permian Basin.

Winchester is currently conducting a detailed assessment of these intervals for production given oil shows during drilling across all eight wells.

In a validation of the stacked pay potential within Winchester's acreage, US Energy Corporation of America (US Energy) is planning in the near future to test the Permian Basin Wolfcamp "D" Shale oil potential in several wells that they may initially re-enter to perform a vertical frac. If the vertical frac oil recovery results are encouraging, US Energy can elect to horizontally drill and fracture stimulate. These wells will be within or near Winchester's leases. This activity by US Energy will provide at minimal cost to Winchester, an important evaluation of the potentially significant Permian Wolfcamp "D" Shale oil resource potential in Winchester's adjacent large acreage holding.

Net Lease Area

The Company's lease holding is a total of 17,402 net acres at the end of the half ending 30 June 2018.

Corporate

The Company issued 4,500,000 options with an exercise price of $0.12 each exercisable on or before 31 January 2022.

Financial Results

Revenue from continuing operations for 2018 was US$739,573 (2017: US$1,289,978). The company reported a net loss before tax of US$14,894,827 for the half year ended 30 June 2018 (2017: US$587,843). This result included an impairment expense of US$14,398,526 (2017: US$ nil), a depletion expense of US$363,516 (2017: US$501,186) and share based expenses US$73,589 (2017: US$431,723). Cash position at 30 June 2018 was US$1,150,412 (31 December 2017: US$2,794,081)

Significant changes in the state of affairs

There were no significant changes in the Company's state of affairs that occurred during the half year ended 30 June 2018.

Events after the reporting date

There have been no significant events after the reporting date.

Dividends

In respect of the period ended 30 June 2018, no dividends have been paid or declared since incorporation and the Directors do not recommend the payment of a dividend in respect of the financial period.

Auditor's independence declaration

The auditor's independence declaration is included on page 6 of the half-year report.

This Directors' Report is signed in accordance with a resolution of Directors made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the Directors

Mr John Kopcheff
Non-Executive Chairman
13 September 2018

DIRECTORS' DECLARATION

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s303 (5) of the Corporations Act 2001.

On behalf of the Directors

J. D. Kopcheff

Mr John Kopcheff
Non-Executive Chairman
13 September 2018

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DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF WINCHESTER ENERGY LIMITED

As lead auditor for the review of Winchester Energy Limited for the half-year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Winchester Energy Limited and the entities it controlled during the period.

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 13 September 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 30 June 2018

	Note	30 June 2018 US$	30 June 2017 US$
Revenue		739,573	1,289,978
Interest income		1,447	4,089
Other income		74,074	-
Foreign exchange expenses (Income)		542	(63,685)
Operating costs		(204,974)	(199,041)
Administration expenses	3	(668,817)	(685,152)
Depletion, Depreciation and Amortization		(363,516)	(501,186)
Impairment expense	5	(14,398,526)	-
Share based payments		(73,589)	(431,724)
Finance costs		(1,040)	(1,122)
Loss before income tax		**(14,894,827)**	**(587,843)**
Income tax benefit	4	-	-
Loss for the period after income tax		**(14,894,827)**	**(587,843)**
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(53,548)	114,243
Total comprehensive loss for the period		**(14,948,375)**	**(473,600)**

Loss per share for the half year attributable to the members of Winchester Energy Ltd	Cents	Cents
Basic loss per share (cents per share)	(5.22)	(0.27)
Diluted loss per share (cents per share)	(5.22)	(0.27)

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes. All figures are stated in US dollars (US$).

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	30 June 2018 US$	31December 2017 US$
ASSETS			
Current assets			
Cash and cash equivalents		1,150,412	2,794,081
Trade and Other receivables		818,868	850,178
Total current assets		**1,969,280**	**3,644,259**
Non-current assets			
Property, plant and equipment		18,582	19,090
Exploration and evaluation expenditure	5	3,315,686	16,948,844
Oil & Gas properties	6	1,160,458	1,330,784
Total non-current assets		**4,494,726**	**18,298,718**
TOTAL ASSETS		**6,464,006**	**21,942,977**
LIABILITIES			
Current liabilities			
Other payables		882,638	1,486,603
Total current liabilities		**882,638**	**1,486,603**
Non-current liabilities			
Borrowings		3,992	4,212
Total non-current liabilities		**3,992**	**4,212**
TOTAL LIABILITIES		**886,630**	**1,490,815**
NET ASSETS		**5,577,376**	**20,452,162**
EQUITY			
Issued capital	7	28,937,201	28,937,201
Option Premium Reserve		1,891,620	1,891,620
Share based payment reserve		576,458	502,869
Foreign currency translation reserve		(2,940,628)	(2,887,079)
Accumulated losses		(22,887,275)	(7,992,449)
TOTAL EQUITY		**5,577,376**	**20,452,162**

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes. All figures are stated in US dollars (US$).

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 30 June 2018

	Ordinary Shares	Accumulated losses	Option Premium reserve	Share based payment reserve	Foreign Currency Translation Reserve	Total
	US$	US$	US$	US$	US$	US$
Balance at 1 January 2017	**24,172,873**	**(3,579,506)**	**1,891,620**	**-**	**(3,170,924)**	**19,314,063**
Loss for the period	-	(587,843)	-	-	-	(587,843)
Other comprehensive loss	-	-	-		114,243	114,243
Total comprehensive loss for the period	-	(587,843)	-	-	114,243	(473,600)
Transactions with owners in their capacity as owners						
Share based payment transactions	-	-	-	431,723	-	431,723
Issue of share capital (net of costs)	1,997,608	-	-	-	-	1,997,608
	1,997,608	-	-	431,723	-	2,429,331
Balance at 30 June 2017	**26,170,481**	**(4,167,349)**	**1,891,620**	**431,723**	**(3,056,681)**	**21,269,794**
Balance at 1 January 2018	**28,937,201**	**(7,992,449)**	**1,891,620**	**502,869**	**(2,887,079)**	**20,452,162**
Loss for the period	-	(14,894,827)	-	-	-	(14,894,827)
Other comprehensive loss	-	-	-	-	(53,548)	(53,548)
Total comprehensive loss for the period	-	(14,894,827)	-	-	(53,548)	(14,948,375)
Transactions with owners in their capacity as owners						
Share based payment transactions	-	-	-	73,589	-	73,589
Issue of share capital (net of costs)	-	-	-	-	-	-
Balance at 30 June 2018	**28,937,201**	**(22,887,276)**	**1,891,620**	**576,458**	**(2,940,628)**	**5,577,376**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes. All figures are stated in US dollars (US$).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 30 June 2018

	Note	30 June 2018 US$	30 June 2017 US$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		823,628	1,272,613
Payments to suppliers and employees (inclusive of GST)		(1,457,491)	(1,140,830)
Interest paid		-	-
Net cash generated by/(used in) operating activities		(633,863)	131,783
Cash flows from investing activities			
Payment for exploration activities		(958,558)	(1,691,018)
Interest received		1,447	4,169
Purchase of property, plant, equipment and software		-	(8,945)
Payment for term deposits		-	2,628
Net cash used in investing activities		(957,111)	(1,693,166)
Cash flows from financing activities			
Proceeds from issue of shares and options		-	1,997,608
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash generated by financing activities		-	1,997,608
Net increase/(decrease) in cash and cash equivalents		(1,590,974)	436,225
Cash and cash equivalents at beginning of the period		2,794,081	2,440,550
Effect of exchange rate changes on balance of cash held in foreign currencies		(52,695)	54,593
Cash and cash equivalents at the end of the period		**1,150,412**	**2,931,368**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes. All figures are stated in US dollars (US$).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

1. Summary of Significant Accounting Policies

a) 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 all of the notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

b) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in US dollars, unless otherwise noted. The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company's 2017 annual financial report for the financial year ended 31 December 2017, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Going Concern

The financial report has 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 normal course of business.

At 30 June 2018 the Group had a cash and cash equivalent balance of $1,150,412, had net working capital of $1,086,642 (2017: $2,157,656) and incurred a net operating loss of $14,894,827 (2017: $587,843).

The ability of the Group to continue as a going concern is dependent on the Group securing additional funding through the issue of equity, the raising of debt, joint venturing assets or the sale of assets as and when the need to raise working capital arises to continue to fund its planned operational activities.
These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has prepared a cash flow forecast for a period of 12 months beyond the sign off date of this financial report and believes there are sufficient funds to meet the Group's working capital requirements and as at the date of this report.
The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Group has a recent proven history of successfully raising capital;
- The Directors believe that there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities; and
- Cash spending can be reduced or slowed below its current rate if required.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

Functional and presentation currency

Items included in the consolidated annual financial statements of each of the group entities are measured using the currency of the primary economic environment in which entity operates (functional currency). The Company's functional currency is Australian dollars and other entities are US dollars. The consolidated financial statements are presented in US dollars.

Adoption of new and amended accounting standards

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of the adoption of the following standards:

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The impact of these standards, and the other new and amended standards adopted by the Group, has not had a material impact on the amounts presented in the Group's financial statements.

AASB 9 Financial Instruments – Impact of Adoption

Impairment of financial assets

The Group's financial assets subject to AASB 9's new expected credit loss model are cash and trade receivables, which arise from the provision of services and sale of goods.

The impact of the impairment requirements of AASB 9 on cash and cash equivalents and other receivables has not resulted in a material impact to the financial statements.

Under AASB 9, the Group was required to revise the impairment methodology used in the calculation of its provision for doubtful debts to the expected credit loss model. This change in methodology has not had a material impact on the financial statements. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

AASB 9 Financial Instruments – Accounting Policies Applied from 1 January 2018

Classification

From 1 January 2018, 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 how the Group manages the financial assets and the contractual terms of the cash flows. At half year end, all of the Group's financial assets have been classified as those to be measured at amortised cost.

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 (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Impairment

From 1 January 2018, the Group assesses expected credit losses associated on a forward looking basis. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

AASB 15 Revenue from Contracts with Customers – Impact of Adoption

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes to accounting policies but no adjustments to the amounts recognised in the financial statements.

AASB 15 Revenue from Contracts with Customers – Accounting policies

Group revenues consist of the following elements:

- Sales of Oil & Gas

The Group has no material contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

2. Segment information

The Company's operating segments are based on the information that is available to the Managing Director and the Board of Directors. Segment results are reviewed regularly by the Managing Director and the Board of Directors.

The Company has one reportable segment being the oil and Gas operations in the USA. For the purposes of this disclosure, the operations carried out are in respect of the acquisition and drilling program of the Company's oil and gas leases of which $17,714,212 capitalised as exploration and evaluation expenditure in the statement of financial position. The remaining unallocated items in the statement of profit or loss and statement of financial position are in relation to the Company's administrative functions in Australia and USA.

Following is an analysis of entity's results from operations and asset for each of the geographic location.

	Segment Revenue (US$)		Segment Loss (US$)		Segment Assets (US$)	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	31 December 2017
Unallocated	75,520	-	(292,563)	(785,591)	583,591	2,265,325
USA	739,573	1,289,978	(14,602,264)	197,748	5,880,415	19,677,651
Total	**815,093**	1,289,978	**(14,894,827)**	**(587,843)**	**6,464,006**	**21,942,977**

The accounting policies of the reportable segments are the same as the Company's accounting policies.

3. Administration expenses

	30June 2018 US$	30 June 2017 US$
Consultancy fees	249,369	259,956
Legal Fees	3,060	4,272
Rent	137,755	151,987
Accounting & compliance expense	25,612	37,558
Employee benefit expense	125,433	72,401
Other expenses	127,588	158,978
Total	668,817	685,152

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

4. Income taxes

a) Income tax recognised in profit or loss

The major components of income tax expense are:

	30 June 2018 US$	30 June 2017 US$
Current tax	-	-
Deferred tax	-	-
Income tax benefit reported in the Statement of profit or loss and other comprehensive income.	**-**	**-**

b) Reconciliation of income tax expense:

	30June 2018 US$	30 June 2017 US$
Loss before income tax	14,894,827	587,843
Income tax benefit calculated at rate of 27.5% (2017: 30%)	(4,096,077)	(176,353)
Effect of revenue losses not recognised as deferred tax assets	4,096,077)	176,353
Income tax reported in the consolidated Statement of profit or loss and other comprehensive income.	**-**	**-**

5. Exploration and evaluation expenditure

	30 June 2018 US$	31 December 2017 US$
Opening balance	16,948,845	15,002,839
Exploration and evaluation expenditure capitalised during the period	958,559	5,596,242
Impaired during the year	(14,398,526)	
Transferred to Oil & Gas properties	(193,192)	(3,650,237)
Closing balance	**3,315,686**	**16,948,845**

The write down of exploration expenditure relates to a number of oil leases over the total acreage leased by Winchester Energy Limited. None of the lease have been abandoned but it has been recognised that the carrying value of certain of the lease potentially exceeds recoverable value. In certain circumstances costs have been written off where it was perceived there might be diminished prospectivity of securing production and more prospective leases pursued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

A desktop review carried out by management on the relevant wells resulted in an impairment charge of US$14,398,526 during the period. The closing balance at 30 June 2018 therefore represents the fair value less costs of disposal.

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - a valuation technique is used using inputs other than quoted prices within level 1 that are observable, either directly (i.e. as prices), or indirectly (i.e. derived from prices);
- Level 3 - a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

The fair value of the Winchester projects falls into category 2 of the fair value hierarchy and is based on observable inputs in the absence of quoted prices in a market. A review of range of market prices of leased acreage within the Permian Basin provided for a price of approximately US$230 per acre. Using this as an observable input provided for a valuation that was in excess of carrying value on a well by well basis.

Ultimate recoupment of the remaining carrying amount of exploration assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas.

6. Oil & Gas properties

	30 June 2018 US$	31 December 2017 US$
Opening balance	1,330,784	1,751,126
Transferred from Exploration and evaluation expenditure	193,191	3,650,237
Depletion expense	(363,516)	(2,375,518)
Impairment expense	-	(1,695,062)
Closing balance	**1,160,458**	**1,330,784**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

7. Issued capital

	30 June 2018 US$	31 December 2017 US$
285,148,832 fully paid ordinary shares (31 December 2017: 285,148,832)	28,937,201	28,937,201

Fully paid ordinary shares	Number of Shares	Share capital US$
Balance at 1 July 2017	244,691,332	26,170,481
Issue of shares	40,457,500	2,996,790
Share issue costs	-	(230,070)
Balance at 31 December 2017	**285,148,832**	**28,937,201**
Issue of shares	-	-
Share issue costs	-	-
Balance at 30 June 2018	**285,148,832**	**28,937,201**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or proxy, at a meeting of the Company.

8. Share based payments

During the period, Company issued 2,000,000 share options to executives of the company subject to vesting conditions and another 2,500,000 options to company directors subject to shareholder approvals.
Details of options issued to key management personnel(KMP) are as follows:

Name	No of options granted	No of options vested	No of options forfeited	Outstanding at 30 June 2018	Exercisable at 30 June 2018
Executive options					
James Allchurch	1,000,000	500,000	-	500,000	500,000
Brian Mallick	1,000,000	500,000	-	500,000	500,000
Total	**2,000,000**	**1,000,000**		**1,000,000**	**1,000,000**
Directors options					
John Kopcheff	2,500,000	2,500,000	-	-	2,500,000
Total	**2,500,000**	**2,500,000**	**-**	**-**	**2,500,000**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 30 June 2018

Vesting conditions

Executive	Options	Vesting conditions
James Allchurch	500,000	Fully vested from the date of their grant
	500,000	Vest after a period of 12 months of continued further service from the date of grant
Brian Mallick	500,000	Fully vested from the date of their grant
	500,000	Vest after a period of 12 months of continued further service from the date of grant

The AASB 2 fair value of the option was calculated using Black-Scholes modelling. For expensing purposes, a fair value of 1.52 cents per share for executive options and director's options were calculated. The following inputs were used in the calculation:

	Directors and Executive options
Valuation date (equal to grant date under AASB 2)	6 June 2018
Exercise price	12 cents
Expiration date	31 January 2022
Share price at valuation date	$0.035
Risk free rate of interest	2. 20% p.a.
Company share price volatility	80% p.a.
Fair value	$0.0152

9. Related party transactions

Remuneration arrangements and related party transactions of key management personnel (KMP) are disclosed in the annual report for the year ended 31 December 2017.

During the period Winchester Energy paid $22,691 to Siena Energy LLC a company owned by Neville Henry and Hugh Idstein for use of server and data room services.

During the period Winchester Energy paid $644,190 to TRL Operating Services (Formerly WEL Operating Services) a company owned by Neville Henry and Hugh Idstein for salaries of employees including Neville Henry, Hugh Idstein and others, in addition for the use of office equipment and office rent.

10. Fair values of financial instruments

Recurring fair value measurements

The Group does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

Fair values of financial instruments not measured at fair value

Due to their short-term nature, the carrying amounts of current receivables and current trade and other payables is assumed to equal their fair value.

11. Events after reporting date

There have been no other significant events after the reporting date.

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Winchester Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Winchester Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1(b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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, we have become aware of any matter that makes us 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 financial position as at 30 June 2018 and its 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien

Director

Perth, 13 September 2018