WINCHESTER
ENERGY LIMITED

ACN 168 586 445

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2018

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CORPORATE INFORMATION

Directors

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

Company Secretary

Mr Lloyd Flint

Registered Office

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West Perth WA 6005 Australia

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Facsimile: +618 6298 6191
Email: admin@winchesterenergyltd.com
Website: www.winchesterenergyltd.com

Principal place of business

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West Perth WA 6005 Australia

USA Office

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Houston, Texas USA 77056

Share register

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Level 2, 267 St George's Terrace
Perth WA 6000 Australia
Postal Address: PO Box 2226
Strawberry Hills, NSW 2012Australia

Telephone: +61 8 9324 2099
Facsimile: +61 2 8583 3040

Auditors

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

REVIEW OF OPERATIONS

Winchester was established in 2014 with the preliminary objective of acquiring oil and gas leases and working interests (WI) in areas situated on the Eastern Shelf of the Permian Basin in Texas, USA, a location which offers a host of prospective conventional and unconventional oil opportunities at shallow depth together with attractive conventional oil targets in the Ellenburger Formation at slightly greater depth. Concurrent with establishing a dominant land position in the Permian Basin, Winchester commenced exploration drilling with subsequent oil and gas production achieved in 2015.

Location of the Company's acreage in Nolan County, Texas

Oil Production

The total oil production in barrels of oil (bo) across all oil wells in which WEL has a working interest since inception of the Company and for the year ended 31 December 2018 is as follows:

	Gross Oil Production* (bo)	Net Oil Production to Winchester (bo) (Net 50%WI)*
2018 Oil Production	50,009	25,004
2018 Oil Sales	52,038	26,019
Total Production Since Inception	318,918	159,459

** 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.*

The following table outlines the quarter on quarter oil production from the December 2018 quarter.

Gross Oil Production (bo)*	December Quarter 2018	September Quarter 2018	June Quarter 2018	March Quarter 2018
Oil Production (Gross 100%WI)	**10,726**	11,346	12,660	15,277
Oil Sales (Gross 100%WI)	**12,500**	10,279	14,210	15,049
Net Oil Production to Winchester (bo) (50% Working Interest)*				
Quarterly Oil Production (Net)	**5,249**	5,503	6,346	7,658
Quarterly Oil Sales (Net)	**5,679**	5,098	6,969	7,561

** 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.*

Oil and Gas Exploration Activities

The year ending 31 December 2018 saw the Company undertake drilling and completion activities as operator on the White Hat Ranch as well as generating multiple exciting drilling prospects with Gross Prospective Resources within its oil and gas leases located in the eastern shelf of the Permian Basin in central west Texas, USA.

The Eastern Shelf has several stacked reservoirs and Winchester has high confidence that the Eastern Shelf of the Permian Basin and in particular its leased acreage 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.

After initially focusing on the Ellenburger Limestone, the Company is now concentrating on the Strawn interval where multiple sand and lime units are productive across the Company's acreage. The Ellenburger remains a strong secondary target.

Exciting Drill Targets with Gross Prospective Resources

Following the second Ellenburger horizontal well completed in mid-2018, in which the results in the short radius horizontal laterals failed to meet expectations, Winchester has now refocused on a vertical drilling program in its oil producing formations. This program is designed to best exploit multiple reservoir "stacked" targets in the Strawn sands, Wolfcamp "D" organic shales, Lower Pennsylvanian and Ellenburger formations.

Within the lease position there are several intervals with development potential. This has become particularly significant given the production rate observed from the Strawn Formation in the White Hat 20#2 well (initial production of 200 bopd. Independent expert consultants Mire and Associates recently increased the estimated ultimate recovery (EUR) from the White Hat 20#2 to 112,000 barrels of oil.
Winchester has identified, from both 3D seismic and well control, the El Dorado, Mustang and Spitfire prospects. The gross Prospective Resources estimates for these three prospects have been estimated probabilistically on an un-risked Best Estimates basis by independent U.S. based petroleum consultants, Mire & Associates, Inc. The cumulative gross prospective resource for these three prospects on a probabilistic basis is 7.796 million barrels*, if oil and productive reservoir targets are present in these prospects.

Cautionary Statement: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. See announcement dated 15 October 2018 for further detail. It is noted that only the Strawn sand and Ellenburger carbonates are being considered in the determination of the Prospective Resources for these Prospects.

Prospect	Low Estimate (mill bbls)* P90	Best Estimate (mill bbls)* P50	High Estimate (mill bbls)* P10
El Dorado	0.591	**1.269**	2.628
Mustang	0.799	**2.037**	5.007
Spitfire	1.994	**4.490**	9.907
Total - All Prospects	3.384	**7.796**	17.542
Total Net to WEL**	2.122	**4.870**	10.912

** - The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. See announcement dated 15 October 2018 for further detail.*
*** - Total Net to WEL is its current Entitlement Share (79%), net of applicable lease royalties and equates to average 62% of the Total Gross Prospective Resource as WEL's working interest is 75% in the Mustang and Spitfire prospects and 100% working interest in the El Dorado prospect. WEL's future entitlement share may be subject to reduction in the event of farmout in the future, should any farmout occur.*

Mustang Prospect - Winchester Energy 75% Working Interest (WI)

The Mustang prospect is a stratigraphic trap interpreted from 3D seismic and well control data. The prospect is composed of a series of Strawn sand lobes deposited during marine lowstands, in a linear trend at the base of the continental shelf slope, in front of the regional high to the east.

Within the prospect and 0.5 miles to the north east of the proposed well location, the White Hat 20#2 well produces oil from the Strawn sand with an initial production rate of 200 barrels of oil per day (bopd). The 3D seismic interpretation provides confidence that the presence of the oil producing sand seen in White Hat 20#2 is present in the Mustang Prospect.

Given the control over the Mustang Prospect provided by the 3D seismic, a producing well in the primary Strawn target zone 510 metres to the northeast of the drill location (White Hat 20#2), past Ellenburger oil production 420 metres to the southwest (JF#3) and 220,000 bo from Winchester's White Hat 21#1 and White Hat 21#4 wells to the northeast, the estimated probability of success for both targets is 58%.
Cautionary Statement: Estimated probability of success in finding oil is based on Winchester's analysis of the risk relating to presence of: Trap X Reservoir X Seal X Charge.

An announcement regarding the commencement of drilling of the first well targeting the Mustang prospect, White Hat 20#3, was released on 19 March 2019.

Spitfire Prospect - Winchester Energy 75% Working Interest (WI)

This prospect is interpreted from 3D seismic inversion processing as a series of lobes of potential reservoir sediments with intra-formation seals lying within a topographic low as thick valley fill. Well control adjacent to the interpreted Strawn valley fill is provided by an adjacent well on the edge of the seismically interpreted valley fill. Oil shows are present in this 'edge' well in the Strawn sands and carbonates - the primary target within the Spitfire Prospect.

Given the control over the Spitfire Prospect provided by the 3D seismic and adjacent wells with oil shows surrounding the prospect and the reservoir and seal risk, the estimated probability of success for both targets is 28%.

Cautionary Statement: Estimated probability of success in finding oil is based on Winchester's analysis of the risk relating to presence of: Trap X Reservoir X Seal X Charge.

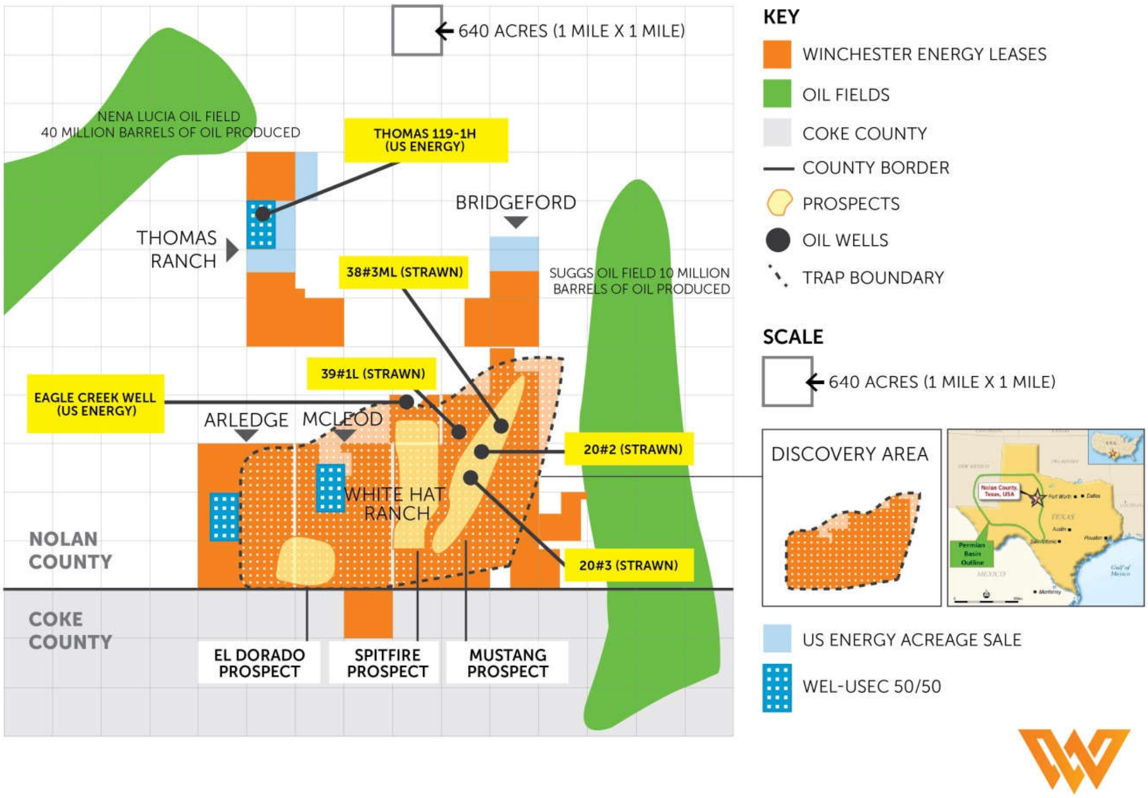
El Dorado Prospect - Winchester Energy 100% Working Interest (WI)

The El Dorado prospect is a large four-way closed structure. The closure has been mapped at multiple levels.

Multiple horizons are prospective including the Wolfcamp 'D' shales and carbonates, the Penn Carbonate, the Strawn sandstones and carbonates and the Ellenburger carbonates with closure present over 3,000 feet of vertical section.

The company has used a vast number of wells in Nolan County in the vicinity and within the Company's acreage to determine recovery factors, 3D seismic mapping to calculate the trapping area and well logs to determine the prospective reservoir thickness. The recoverable barrels per acre-ft for the prospects are based on the adjacent Suggs Oil Field and White Hat Ranch Field producing well data.

Given the control over the prospect provided by the 3D seismic and adjacent wells surrounding the prospect with oil shows, the estimated probability of success for both targets is 48%. Cautionary Statement: Estimated probability of success in finding oil is based on Winchester's analysis of the risk relating to presence of: Trap X Reservoir X Seal X Charge.



Existing Well Re-entry Opportunities

<u>*White Hat 39#1L (WEL Working Interest - 40.6% after payout)*</u>
Winchester has previously reported that after simple perforation and acidisation the White Hat 39#1L well produced 1,000 barrels of oil from the Strawn Formation over 10 producing days of swabbing and pumping. The well was perforated across a 20 feet section of the Strawn Formation and, following initial swab rates of 200 bopd, was put on pump to assess production.

As expected, the total fluid rate then diminished to 40-50 bopd as the acidized area surrounding the well bore was produced. This rate of production is regarded as significant for an un-fracked Strawn well.

A full formation build-up test was completed in November 2018 to assess the reservoir pressure and determine potential near wellbore damage, areal extent, potential formation barriers as well as any potential depletion. After almost a month of shut-in, White Hat 39#1L was opened and initially produced 30 bopd before declining gradually to its current flow rate of approximately 11 bopd.

Data collected during the full formation build-up pressure test suggests that a hydraulic fracture programme may assist in increasing the oil production rate from the White Hat 39#1L well. Winchester is now reviewing the pressure build-up data and evaluating various fracture stimulation options and models and plans to frack the well as soon as a crew becomes available.

Winchester currently derives production from the Strawn interval in the White Hat 20#2 well. The White Hat 20#2 well was fracture stimulated, with an initial production rate of 200 bopd and continues after 20 months of production to be an excellent producer at an average of 40 bopd in the month of December 2018 - producing over 40,000 barrels of oil to date. The revised estimated ultimate recovery (EUR) for the well is 112,000 barrels.

Carl E Gungoll Exploration LLC (CEGX) a private independent Texas based company has farmed-in to White Hat 39#1L. Winchester has a 31.5% interest before payout retaining a 40.6% working interest (WI) after payout through the program (GEGX 50% WI, USR Energy, LLC 5% WI and a syndicate of technical consultants familiar with the area a 4.4% WI).

The results of the planned fracture program of the Strawn Formation in White Hat 39#1L is important for Winchester given the Strawn Formation is the largest producing stratigraphic interval in Nolan and Coke Counties with over 65 million barrels of oil produced. Winchester's leasehold is situated in Nolan and Coke Counties.

White Hat 38#3ML

In addition to the White Hat 39#1 testing, Winchester recovered 20 bopd in the vertical section of White Hat 38#3ML after perforating the Strawn prior to being shut in. The well was recently opened up and produced 88 barrels of oil over 4 days before being shut back in. White Hat 38#3ML has been identified as a potential slick water stimulation (targeting the Strawn) candidate similar to the fracture stimulations being used in the successful Scurry County Strawn completions.

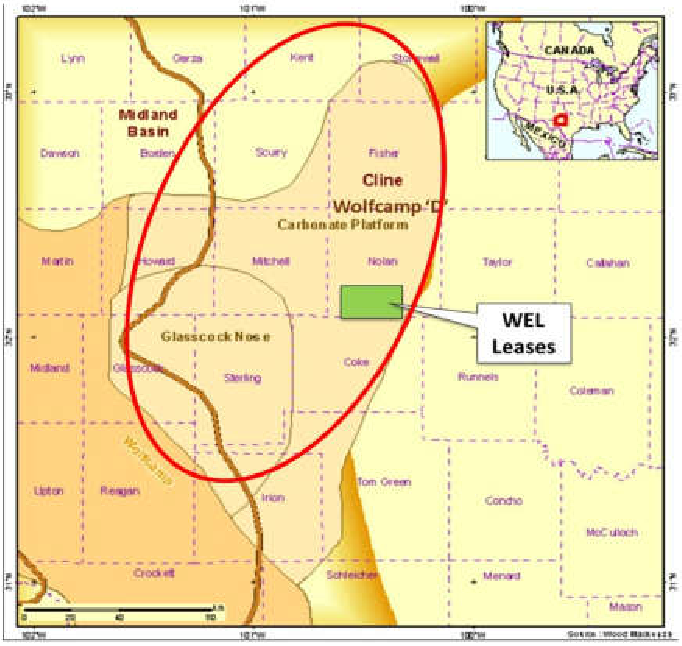
Thomas 119-1H (WEL Working Interest – 12.5% Back-in Right)

In November 2018, Winchester was informed by US Energy Corporation of America (USEC) that they are now moving up the vertical well bore with the plan to hydraulic fracture the Three Fingers Shale of the Wolfcamp 'D' Formation.

USEC have performed a vertical slickwater frack on the Three Fingers Shale with a workover rig and the Company is awaiting notice of results.

Wolfcamp “D”/ Penn Shales

Winchester Energy LTD



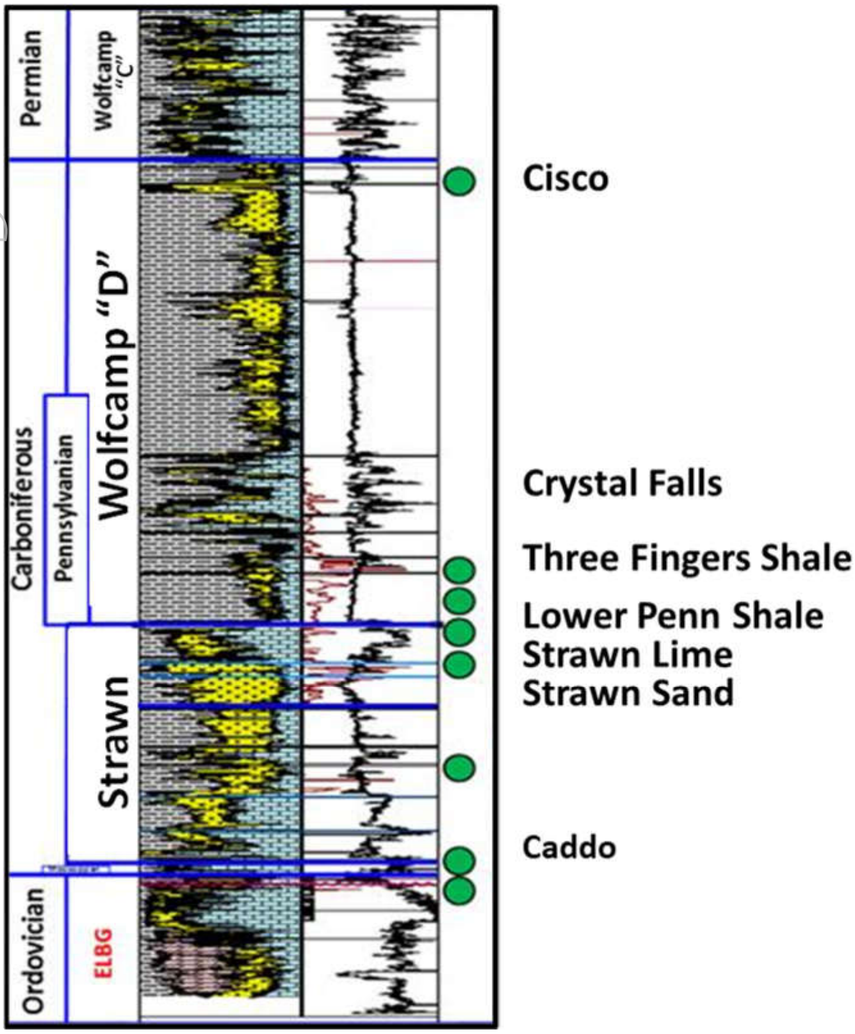
The area covers
175 x 75 km
13,000 Sq. Km
5000 sq miles
3 million acres

The Wolfcamp ‘D’ shale, also known as the Lower Wolfcamp and Cline Formation, is the lowest unit of the Wolfcamp sequence and is spatially extensive in the Permian Basin, extending over the Eastern Shelf. It is present across the majority of Winchester’s leasehold on the Eastern Shelf. Approximately 40 miles to the south west of Winchester’s acreage, oil rates of up to 1,250 bopd have been reported from horizontal fracked wells in the Wolfcamp ‘D’ Formation.

In the event of successful oil and gas production from Thomas 119-1H, Winchester has the right to a 12.5% WI back-in following the recovery by USEC of all costs associated with completion activities at Thomas 119-1H.

On top of the opportunity to back-in to a potentially producing well, any success with completion activities undertaken by USEC at Thomas 119-1H will add significant value to Winchester’s surrounding Wolfcamp ‘D’ leasehold position given that Winchester’s acreage position contains both the Three Fingers Shale as well as other Wolfcamp ‘D’ intervals including the productive Lower Penn Shales.

An indication of the potential value of the Wolfcamp D formation is provided by past drilling and development activity 20 miles to the southwest of Winchester’s leasehold in Fisher County. A shale unit of the Wolfcamp D has been horizontally drilled and fracked with initial flow rates of up to 1,250 barrels of oil per day reported.



Stacked Pay Opportunities

There also exists within the White Hat ranch oil and gas lease several other shallower intervals with future development potential. This has become particularly significant given the production rate observed from the Strawn Formation in the White Hat 20#2 well. As well as other intervals within the Strawn Formation, other prospective units include the high total organic carbon 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.

The Company is currently conducting a detailed assessment of these intervals for production given oil shows during drilling across the acreage to date. Winchester recognises the potential value these intervals represent and will look to evaluate and assess these zones in the future.

US Energy Corporation of America's planned test of the Permian Basin Wolfcamp "D" Shale oil potential in existing wells on or near Winchester's leases will provide, at no cost to Winchester, an important evaluation of the potentially significant Permian Shale oil resource potential in Winchester's acreage.

Oil and Gas Leases

Winchester's lease holding at the end of the December 2018 quarter is 17,266[1] acres.

On 24 December 2018 Winchester announced that it was in the process of reviewing the status of both the Arledge and McLeod leases.

On 25 January, 2019 Winchester announced that the lessor of the McLeod lease has confirmed that the Lease Agreement between the lessor and Winchester is in good standing. The McLeod lease covers an area of 4,246 acres.

Winchester % Interest	Lease	Location
75%	White Hat Ranch	Nolan County Texas
100%	Bridgford Ranch	Nolan County Texas
100%	Thomas Ranch	Nolan County Texas
50%	Thomas-US Energy	Nolan County Texas
100%	McLeod	Nolan County Texas
50%	McLeod-US Energy	Nolan County Texas
100%	Arledge[2]	Nolan County Texas
50%	Arledge-US Energy	Nolan County Texas
100%	Coke	Coke County Texas

Competent Person's Statement

The information in this report is based on information compiled or reviewed by Mr Neville Henry. Mr Henry is a qualified petroleum geologist with over 40 years of Australian, USA and other international technical, operational and executive petroleum experience in both onshore and offshore environments. He has extensive experience of petroleum exploration, appraisal, strategy development and reserve/resource estimation, as well as new oil and gas ventures identification and evaluation. Mr Henry has a BA (Honours) in geology from Macquarie University.

[1] *The Company's net acreage position varies modestly in accordance with earned interests in drilling units of the current operations. The current net interest is 17,266 acres following CEGX's revised position in White Hat 39#1*
Note the Company's announcement of 24 December 2018 advising that it is currently in the process of reviewing the status of the Arledge lease

[2] *Note the Company's announcement of 24 December 2018 advising that it is currently in the process of reviewing the status of the Arledge lease*

DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 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 – Appointed 11 September 2018
Mr Peter Allchurch	Non-Executive Director
Mr Neville Henry	Managing Director
Mr James Hodges	Independent Non-Executive Director – resigned 31 October 2018
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.

Information on Directors

Mr John Kopcheff – Appointed 11 September 2018
Non-Executive Chairman

Mr Kopcheff, B.Sc. (Hons)(Geology and Geophysics) AAPG, SPE, AIMM is a geologist and geophysicist, with 45 years of experience in Australia, South East Asia, USA, South America and the North Sea in exploration, production, oil field operations and management. He founded ASX listed public company Victoria Petroleum N.L. (now Senex Energy Ltd) (Senex) and held the position of Managing Director for 26 years from 1984 to 2010 where he successfully pioneered oil exploration and production on the western margin of the South Australian Cooper Basin. Under his stewardship, Victoria Petroleum discovered proved, probable and possible net oil reserves of 20 million bbls. During that time Victoria Petroleum increased its ASX market cap from $10 million at IPO to $162 million at his retirement.

Current directorships held in other listed entities

Vivid Technology Limited.

Former directorships held in other listed entities in the last three years

None.

Mr Peter Allchurch
Non-Executive Director

Mr Allchurch is a geologist and resource venture capitalist and is the Non-Executive Chairman of the Company. He has 48 years of experience in mineral and petroleum exploration, development and production. Based in Perth, Australia, he has experience in several countries and has founded or co-founded a number of successful ASX listed public companies in the oil and gas and mineral sectors including, but not limited to, Cape Range Oil, Amity Oil, Aurora Oil & Gas Ltd and Eureka Energy Ltd (with the latter two companies having oil assets located in the Eagle Ford Shale, Texas, USA). Mr Allchurch has a BSc. (Geology) from the University of Adelaide and is a Member of the Petroleum Exploration Society of Australia, as well as a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Allchurch is currently a private investor in, and developer of, oil and gas properties and a consultant to independent oil and gas companies.

Current directorships held in other listed entities

None.

Former directorships held in other listed entities in the last three years

Platinum Australia Limited

Mr Neville Henry
Managing Director

Mr Henry is a petroleum geologist with more than 40 years of experience in the global oil and gas industry and is the Managing Director of the Company. Mr Henry has been based in Houston, Texas, USA for more than 25 years. Mr Henry has experience in oil in more than 30 countries and has directly led oil exploration teams responsible for oil and gas discoveries across six basins and four countries for total discovered reserves of more than 4 billion barrels of oil. He worked for Anadarko for 12 years, most notably as International Exploration Manager and Worldwide Business Development Manager, and was part of the core team that built this non-US oil production business from 25,000 bopd to 400,000 bopd. Prior to his roles at Anadarko, Mr Henry worked at Adobe Petroleum, Marathon Oil and UNOCAL. Mr Henry has managed joint ventures involving 45 oil and gas companies, including majors, large and small oil independents and foreign and domestic oil companies, and has been responsible for all technical, business, financial and personnel aspects of their respective businesses. Mr Henry has a BA (Honours) in geology from Macquarie University, and is registered in Texas as a Professional Geoscientist.

Current directorships held in other listed entities

None.

Former directorships in other listed entities in the last three years

None.

Mr James Hodges
Independent Non-Executive Director – resigned 31 October 2018

Mr Hodges is an engineer based in Texas, USA with more than 40 years of oil field experience, having drilled and/or completed oil, high-pressure gas, saltwater disposal, injection, water source, hazardous waste injection and geothermal wells in Texas and Louisiana in reservoirs from sand to carbonates. As the owner of Hodges Engineering Inc., Mr Hodges is currently active in oil and gas exploration and production in Texas and provides engineering consulting services to the Texan energy, financial and environmental industries. Mr Hodges graduated from Texas A&M University in 1970 with a degree in mechanical engineering, and is registered in Texas as a Professional Engineer.

Current directorships held in other listed entities

None.

Former directorships in other listed entities in the last three years

None.

Mr John D. Kenny
Non-Executive Director - resigned 22 May 2018

Mr Kenny is a lawyer by profession and holds a Bachelor of Commerce (Hons) and Bachelor of Laws from the University of Western Australia. Through his practice of corporate and mining law and investment banking, Mr Kenny has advised a number of ASX listed public companies in the areas of equity and debt finance. Mr Kenny has been a venture capital investor in several ASX mining and oil floats and also has experience in a number of sectors of Australian agribusiness, with involvement both as a director and as an investor.

Current directorships held in other listed entities

Arrowhead Resources Ltd

Former directorships in other listed entities in the last three years

Sun Resources NL
Indus Coal Ltd

Mr Larry Liu
Non-Executive Director

Mr Larry Liu obtained a Bachelor's Degree of Engineering from Southeast University, China and a MBA from a joint program between APESMA & Deakin University, Australia. He joined General Electric in 1997 from Contact Energy New Zealand, and served in various Asia Pacific leadership positions for GE. He was the general manager of South China, HK & Macau for GE Consumer & Industrial. He is now a professional investor.

Current directorships held in other listed entities

None

Former directorships in other listed entities in the last three years

None

Company Secretary

Mr Flint BAcc, MBA, CAANZ. Appointed 27 October 2018. Mr Flint is an experienced professional gained over 25 years including periods as CFO and group Company Secretary for a number of listed ASX companies. Mr Flint provides financial and company secretarial services to a number of ASX listed companies.

Directors' shareholdings

The following table sets out each Director's relevant interest in the shares of the Company or a related body corporate as at the date of this report:

	Shares	Options	Class A Convertible Milestone notes	Class B Convertible Milestone notes	Class C Convertible Milestone notes
Mr John Kopcheff	3,987,632	3,078,512	41	82	123
Mr Peter Allchurch	15,348,744	4,576,828	1,981	3,962	5,943
Mr Neville Henry	6,922,234	8,777,759	1,959	3,918	5,877
Mr James Hodges[1]	1,125,000	500,000	-	-	-
Mr John D. Kenny[1]	14,908,774	6,016,828	1,666	3,332	4,998
Mr Larry Liu	70,143,733	5,128,099	330	660	990

Note[1] As at resignation stated above.

Principal activities

The principal activity of the Group during the financial period was acquiring oil and gas leases and working interests in areas situated on the Eastern Shelf of the Permian Basin in Texas, USA and exploring for oil and gas on those oil and gas leases and working interests.

Operating Results

Net loss of the Group for the period ended 31 December 2018 after providing for income tax was US$15,747,488 (2017: US$4,412,943). Net Assets of the entity as at 31 December 2018 were US$4,709,175 (2017: US$20,452,162).

Significant changes in the state of affairs

There were no significant changes in the Company's state of affairs occurred during the year ended 31 December 2018.

Significant events subsequent to reporting date

The Company announced a non-renounceable Rights Issue on the basis of 1 share for every 2 existing shares held to raise approximately AUD$2.85m offer on 7 December 2018. The offer closed on 4 February 2019. Under the offer 42,399,079 new shares were applied for and subsequently issued and allotted on 11 February 2019. The Company is in the process of placing the 100,175,370 shortfall shares as at the date of this report.

Other than the events above, there have been no significant events after the reporting date.

Likely developments and expected results

Each year the Board will undertake a formal strategic planning process to provide guidance to management about the Company's strategic direction. The Company plans to continue with its business strategies as set out in this report. The execution of these strategies is expected to result in improved financial performance over the coming year. The achievement of the expected results is dependent on range of factors, some of which are outside the Company's control.

Environmental regulation and performance

The Company has a policy of complying with its environmental performance obligations. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

Dividends

In respect of the year ended 31 December 2018, no dividends have been paid or declared since 1 January 2018 (2017 : nil) and the Directors do not recommend the payment of a dividend in respect of the financial period.

Indemnification and insurance of officers and auditors

During or since the financial period, Winchester Energy Limited ('**the Company**') has paid premiums in respect of a contract insuring all Directors of the Company against legal costs incurred in defending proceedings for conduct involving, (a) wilful breach of duty or (b) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The Company has not otherwise, during or since the end of the financial period, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as an officer or auditor.

Shares under option

Unissued ordinary shares of Winchester Energy Limited under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price	Number under option
24 April 2014	30 April 2019	$A0.25	16,000,000
16 September 2014	30 April 2019	$A0.25	14,000,000
10 March 2017	31 January 2022	$A0.12	5,000,000
12 April 2017	31 January 2022	$A0.12	9,000,000
2 November 2017	31 January 2022	$A0.12	1,500,000
6 June 2018	31 January 2022	$A0.12	4,500,000

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the period and the number of meetings attended by each Director was as follows:

	Board of Directors		Audit & Risk committee		Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Mr John Kopcheff	7	7	1	1	-	-
Mr Peter Allchurch	7	6	-	-	-	-
Mr Neville Henry	7	7	-	-	-	-
Mr James Hodges	6	6	2	2	1	1
Mr John D. Kenny	3	3	1	1	1	1
Mr Larry Liu	7	7	-	-	-	-

Diversity

The Company believes that the promotion of diversity on its Board and within the organisation generally is good practice and is committed to managing diversity as a means of enhancing the Company's performance. There are currently no women on the Company's board or filling senior management positions within the Company, however the Company (as set out in the Diversity Policy) will focus on participation of women on its Board and within senior management and has set objectives for achieving gender diversity.

Auditor independence and non-audit services

The auditor's independence declaration is included on page 21 of the annual financial report.

The following non-audit services were provided by the entity's auditor, BDO. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Auditor independence and non-audit services

BDO received or are due to receive the following amounts for the provision of non-audit services:

	2018 US$	2017 US$
Taxation advice	5,100	9,241
	5,100	9,241

Remuneration Report (Audited)

1. Introduction

The remuneration report details the remuneration arrangements for key management personnel (**KMP**) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of Winchester Energy Limited.

For the purposes of this report, the term "Senior Management" includes the Managing Director, Directors and other senior executives of the Company.

Directors		
Mr John Kopcheff	Non-Executive Chairman	Appointed 11 September 2018
Mr Peter Allchurch	Non-Executive Director	Appointed 17 March 2014
Mr Neville Henry	Managing Director	Appointed 17 March 2014
Mr James Hodges	Independent Non-Executive Director	Appointed 30 April 2014 – resigned 31 October 2018
Mr John D. Kenny	Non-Executive Director	Appointed 17 March 2014 – resigned 22 May 2018
Mr Larry Liu	Non-Executive Director	Appointed 10 December 2014

2. Remuneration Policy

The remuneration policy has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and where relevant offering specific long-term incentives based on key performance areas affecting the Company's financial results. The Board believes the current remuneration policy to be appropriate and effective in its ability to attract and retain the most valued executives and Directors to run and manage the Group.

The remuneration policy, setting the terms and conditions for the executive Directors and other senior executives, was developed by the Board. All executives receive consultancy fees based on hours of service per month (which is based on factors such as length of service and experience), excluding James Hodges who is paid a monthly fee. The Board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. Executives are also entitled to participate in the employee share and option arrangements.

Executive Directors and senior management do not receive a superannuation guarantee contribution and do not receive any other retirement benefits except for John Kopcheff who receives a superannuation guarantee contribution payment as part of his salary.

Remuneration Report (Audited) (continued)

3. Summary of Senior Management contractual arrangements

The Company's KMP are employed under individual consulting agreements, which contain standard terms and conditions on notice and termination provisions, restraint and confidentiality provisions and leave entitlements. Specific terms and conditions of service agreements of KMP at the end of the financial year are summarised in the table below:

Name	**Position**	Notice Period	Restraint of Trade
Mr John Kopcheff	Non-Executive Chairman	n/a	None
Mr Neville Henry	Managing Director	3 months	None
Mr Peter Allchurch	Non-Executive Director	3 months	None
Mr Larry Liu	Non-Executive Director	3 months	None

4. Director remuneration arrangements

Managing Director

Managing Director's executive service agreement, which contains standard terms and conditions on notice and termination provisions, restraint and confidentiality provisions and leave entitlements, comprises an entitlement to an annual fixed remuneration of US$252,000 (inclusive of superannuation). The actual amount earned during the period is included in the remuneration table of the Annual Report.

Other Key Management Personnel

The Constitution provides that the Directors will be paid by way of remuneration for their services as Directors a sum not exceeding such fixed sum per annum as may be determined by the Directors prior to the first annual general meeting of the Company or pursuant to a resolution passed at a general meeting of the Company (subject to complying with the Corporations Act and the Listing Rules, as applicable).

The Shareholders of the Company set the maximum aggregate remuneration payable to Directors at the level of A$1,000,000 per annum.

Each of the Directors had been entitled to the following remuneration over the 12 month period ended 31 December 2018:

Name	Currency	Fees
Mr John Kopcheff	AUD$	60,000
Mr Peter Allchurch	AUD$	36,000
Mr Neville Henry	US$	252,000
Mr James Hodges	US$	31,320
Mr John D. Kenny	AUD$	78,000
Mr Larry Liu	AUD$	36,000

Where a Director performs duties or provides services other than acting as a Director he or she may be paid fees or other amounts as the Directors determine. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

Remuneration Report (Audited)

5. Key management personnel remuneration

The remuneration for each Director and key management personnel of the Company receiving the highest remuneration during the year ended 31 December 2018 was as follows:

2018		Short term benefits			Post-employment	Long term benefits				
		Salary & fees[1]	Cash bonus	Non-monetary benefits	Super-annuation	Long service leave	Share based payments	Termination payments	Total	Performance related
Directors		US$	US$	US$	US$	US$	US$	US$	US$	%
J Kopcheff[2]	2018	56,647	-	-	4,321	-	19,668	-	80,636	24%
	2017	7,377	-	-	701	-	-	-	8,078	0%
P. Allchurch[3]	2018	26,924	-	-	-	-	-	-	26,924	0%
	2017	50,155	-	-	-	-	17,254	-	67,409	26%
N. Henry[4]	2018	261,000		30,015	-	-	-	-	291,015	0%
	2017	261,000	-	20,952	-	-	172,543	-	454,495	38%
J. Hodges[5]	2018	26,100	-	-	-	-	-	-	26,100	0%
	2017	26,000	-	-	-	-	17,254	-	43,254	40%
J. D. Kenny[6]	2018	22,894	-	-	-	-	-	29,166	52,060	0%
	2017	59,818	-	-	-	-	86,272	-	146,090	59%
Larry Liu[7]	2018	26,924	-	-	-	-	-	-	26,924	0%
	2017	27,608	-	-	-	-	17,254	-	44,862	38%
Total	**2018**	**420,490**	**-**	**30,015**	**4,321**	**-**	**19,668**	**29,168**	**503,662**	**4%**
Total	2017	431,958	-	20,952	701	-	310,578	-	764,189	41%

1. Salary and fees were converted to USD using the average rate for the period ending 31 December.
2. An amount of USD8,603 net of PAYG is still payable to John Kopcheff as at 31 December 2018.
3. An amount of USD15,706 in fees is payable to Peter Allchurch as at 31 December 2018.
4. An amount of USD81,000 is owing and payable to Neville Henry as at 31 December 2018. Non-monetary costs are legislated 'on costs' for medical aid contributions.
5. An amount of USD13,050 is owing and payable to James Hodges as at 31 December 2018.
6. An amount of USD47,202 is owing and payable to John Kenny as at 31 December 2018.
7. An amount of USD15,706 in fees is payable to Larry Liu as at 31 December 2018

Remuneration Report (Audited) (continued)

6. Additional statutory disclosures

Key management personnel equity holdings

The following table sets out each Director's relevant interest in the shares of the Company or a related body corporate as at 31 December 2018.

2018	Balance at 1 January No.	Granted as Compensation No.	Net other change No.	Balance at 31 December No.
Mr John Kopcheff	3,687,632	-	300,000	3,987,632
Mr Peter Allchurch	15,348,744	-	-	15,348,744
Mr Neville Henry	6,772,234	-	150,000	6,922,234
Mr James Hodges[1]	1,125,000	-	-	1,125,000
Mr John D. Kenny[1]	14,908,744	-	-	14,908,744
Mr Larry Liu	70,143,733	-	-	70,143,733

[1] As at the time of resignation.

Key management personnel option holdings

The following table sets out each Director's relevant interest in the options of the Company or a related body corporate as at 31 December 2018.

2018	Balance at 1 January No.	Granted as Compensation No.	Net other change No.	Balance at 31 December No.
Mr John Kopcheff	578,512	2,500,000	-	3,078,512
Mr Peter Allchurch	4,576,828		-	4,576,828
Mr Neville Henry	8,777,759		-	8,777,759
Mr James Hodges	500,000		-	500,000
Mr John D. Kenny	6,016,828		-	6,016,828
Mr Larry Liu	5,128,099		-	5,128,099

Share based payment

There were no share based payment arrangements in the form of ordinary shares affecting remuneration of key management personal in the current financial year. There were 2.5m (2017: 9.0m) incentive options over shares issued to key management per the table above that were approved in general meeting of the shareholders on 22 May 2018. The terms of the options were as follows and valued using the Black and Scholes methodology:

	KMP options (AUD)[1]
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	$0.01052

[1] These options vested on grant and were therefore expensed in full during the period.

Loans to key management personnel

No loans were provided to key management personnel during the period.

Remuneration Report (Audited) (continued)

Other Transactions with KMP

During the year Winchester Energy LLC paid US$52,065 to Siena Energy LLC, a company owned by Neville Henry and Hugh Idstein for use of server, software, data and data room services. During the year Winchester Energy LLC paid US$959,992 to TRL Operating Services a shared services company owned by Neville Henry and Hugh Idstein for office personnel, rent, office equipment & furniture and shared office overhead. The payments are all "arms length" transactions on a cost reimbursement basis and includes Neville Henry's annual salary of USD$180,000.

Voting at the Annual General Meeting

At the Annual General Meeting held on 22 May 2018, 93% of proxy votes cast voted in favour of the 2017 remuneration report.

End of audited remuneration report

This Directors' Report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

Corporate Governance Statement

Under ASX Listing Rule 4.10.3 the Company's Corporate Governance Statement can be located at the URL on the Company's website: http://www.winchesterenergyltd.com/corporate-governance

On behalf of the Directors

Mr John Kopcheff
Non-Executive Chairman
29 March 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;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;

(c) 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 Company; and

(d) the Directors have been given the declarations required by s.295A of the Corporations Act.

Signed in accordance with a resolution of the Directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors

Mr John Kopcheff
Non-Executive Chairman
29 March 2018

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Australia

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

As lead auditor of Winchester Energy Limited for the year ended 31 December 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 US$	2017 US$
Revenue		1,193,179	2,166,987
Interest income		2,007	14,718
Other income		75,340	36,075
Foreign exchange loss		1,033	(97,681)
Operating costs		(437,665)	(459,910)
Impairment expense	13/14	(14,673,849)	(1,695,062)
Depreciation expense		(9,286)	-
Depletion Expense		(599,471)	(2,375,518)
Administration expenses		(1,187,476)	(1,428,713)
Share-based payment expense	18	(81,147)	(514,379)
Finance costs		(1,723)	(3,061)
Other expenses		(28,430)	(56,398)
Loss before income tax	6	**(15,747,488)**	**(4,412,943)**
Income tax benefit	7	-	-
Loss for the year after income tax		**(15,747,488)**	**(4,412,943)**
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	19	(65,065)	283,844
Total comprehensive loss for the year		**(15,812,553)**	**(4,129,099)**

Loss per share for the year		Cents	Cents
Basic loss per share (cents per share)	9	**(5.52)**	**(1.89)**
Diluted loss per share (cents per share)	9	**(5.52)**	**(1.89)**

The above 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$).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 US$	2017 US$
ASSETS			
Current assets			
Cash and cash equivalents	10	307,236	2,794,081
Trade and other receivables	11	478,421	850,178
Total current assets		**785,657**	**3,644,259**
Non-current assets			
Property, plant and equipment	12	9,405	19,090
Exploration and evaluation expenditure	13	3,940,924	16,948,844
Oil & Gas properties	14	747,639	1,330,784
Total non-current assets		**4,697,968**	**18,298,718**
TOTAL ASSETS		**5,483,625**	**21,942,977**
LIABILITIES			
Current liabilities			
Trade and other payables	15	770,639	1,486,603
Borrowings	16	3,811	-
Total current liabilities		**774,450**	**1,486,603**
Non-current liabilities			
Borrowings	16	-	4,212
Total non-current liabilities		**-**	**4,212**
TOTAL LIABILITIES		**774,450**	**1,490,815**
NET ASSETS		**4,709,175**	**20,452,162**
EQUITY			
Issued capital	17	28,925,619	28,937,201
Option reserve	18	1,891,620	1,891,620
Share based payments	18	584,016	502,869
Foreign currency translation reserve	19	(2,952,144)	(2,887,079)
Accumulated losses	20	(23,739,936)	(7,992,449)
TOTAL EQUITY		**4,709,175**	**20,452,162**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Ordinary Shares	Accumulated losses	Option Premium reserve	Share based payment reserve	Foreign Currency Translation Reserve	Total
	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	-	(4,412,943)	-	-	-	(4,412,943)
Other comprehensive loss, net of tax	-	-	-	-	283,844	283,844
Total comprehensive loss for the year	-	(4,412,943)	-	-	283,844	(4,129,099)
Transactions with owners in their capacity as owners						
Share based payment transactions	-	-	-	502,869		502,869
Issue of share capital (net of costs)	4,764,328					4,764,328
Balance at 31 December 2017	**28,937,201**	**(7,992,449)**	**1,891,620**	**502,869**	**(2,887,079)**	**20,452,162**
Loss for the year	-	(15,747,488)	-	-	-	(15,747,488)
Other comprehensive income, net of tax	-	-	-	-	(65,065)	(65,065)
Total comprehensive loss for the year		(15,747,488)	-	-	(65,065)	(15,812,553)
Transactions with owners in their capacity as owners						
Share based payment transactions	-	-	-	81,147	-	81,147
Issue of share capital (net of costs)	(11,582)	-	-	-	-	(11,582)
Balance at 31 December 2018	**28,925,619**	**(23,739,937)**	**1,891,620**	**584,016**	**(2,952,144)**	**4,709,175**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 US$	2017 US$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,617,020	1,920,898
Payments to suppliers and employees (inclusive of GST)		(2,348,043)	(915,025)
Interest paid		-	-
Net cash generated/(used in) by operating activities	10(a)	(731,023)	1,005,873
Cash flows from investing activities			
Payment for exploration activities		(1,682,255)	(5,596,242)
Interest received		2,007	14,718
Purchase of property, plant, equipment and software		-	(9,404)
Net cash used in investing activities		(1,680,248)	(5,590,928)
Cash flows from financing activities			
Proceeds from issue of shares and options		-	5,024,259
Costs associated with issue of securities		(11,582)	(259,931)
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash generated by financing activities		(11,582)	4,764,328
Net decrease in cash and cash equivalents		(2,422,853)	179,273
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		(63,992)	174,258
Cash and cash equivalents at the end of the year	**10**	**307,236**	**2,794,081**

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Corporate Information

Winchester Energy Limited (**the Company**) is a limited company incorporated and domiciled in Australia.

The consolidated financial statements of the Company as at 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as the "Group entities").

The registered office and principal place of business of Winchester Energy Limited is located at Level 3, 18 Richardson Street, West Perth WA 6005 Australia.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

This report presents financial information for the year ended 31 December 2018.

2. Summary of Significant Accounting Policies

a) Basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

For the purposes of preparing the financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 29 March 2019.

The financial statements have been prepared on the basis of historical cost. All amounts are presented in US dollars, unless otherwise noted.

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 31 December 2018, the Group had a cash and cash equivalent balance of $307,236 (2017: 2,794,081), had net working capital of $11,206 (2017: 2,157,656) and incurred a net operating loss of $15,747,488 (2017: 4,412,943).

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 FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Summary of Significant Accounting Policies (continued)

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.

b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Winchester Energy Limited (the "**Company**" or "**parent entity**") as at 31 December 2018 and the results of all subsidiaries for the year ended. Winchester Energy Limited and its subsidiaries together are referred to in this financial report as the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit or losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

c) Foreign currency translation

Functional and presentational currency
The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in US dollars. The parent entity's functional currency is Australian dollars and is translated into US dollars for purposes of consolidation.

Transactions and balances
Foreign currency transactions are translated into functional currency using average exchange rates for the period, or where possible, the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities denominated in functional currencies are translated at the year-end exchange rate.

Group companies
The functional currency of the overseas subsidiaries is currency US dollars. The Directors assess the appropriate functional currency of these entities on an ongoing basis.

d) Application of new and revised Accounting Standards

Amendments to AASBs and the new Interpretation that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.
New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Summary of Significant Accounting Policies (continued)

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 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.

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 FINANCIAL STATEMENTS

For the year ended 31 December 2018

AASB 16: Leases

The Standard AASB 16 will replace AASB 117 Leases. The new Standard introduces three main changes:

- Enhanced guidance on identifying whether a contract contains a lease;
- A completely new leases accounting model for lessees that require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets; and
- Enhanced disclosures.

The Group has yet to undertake a detailed impact assessment, however does not expect the new guidance to have a material impact for the Group. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current of future reporting periods and on foreseeable future transactions.

e) Income Tax

The income tax expense or benefit (revenue) for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

f) Cash and Cash Equivalents

Cash and cash equivalents includes cash at bank and in hand, deposits held at call with financial institutions, other short-term highly liquid deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

g) Trade and other receivables

Trade receivables are recognised as the amount receivable and are due for settlement no more than 90 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off against the receivable directly unless a provision for impairment has previously been recognised.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Summary of Significant Accounting Policies (continued)

h) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of GST.

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Revenue from sales of oil & gas

Revenue from sales of oil & natural gas is recognised at the fair value of consideration received or receivable, after deducting sales taxes, excise duties and similar levies, when the group transfers control of the goods to the customer.

i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

j) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 30 days of recognition.

k) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of financial position over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authorities are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Summary of Significant Accounting Policies (continued)

m) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure, including costs of acquiring the licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore the area are recognised in the statement of financial performance.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) The expenditures are expected to be recouped through successful development and exploitation or from sale of the area of interest; or

(ii) Activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, and accumulated costs in respect of that area are written off in the financial period the decision is made.

n) Oil & Gas properties

Upon the commencement of commercial production from each identifiable area of interest, the exploration & evaluation expenditure incurred up to this point is tested for impairment and then classified to oil & gas properties.

Oil and gas properties are stated at cost less accumulated depreciation and impairment charges. Oil and gas properties include construction, installation or completion of production and infrastructure facilities such as pipelines and platforms, capitalised borrowing costs, transferred exploration and evaluation assets, development wells and the cost of dismantling and restoration. Subsequent capital costs, including major maintenance, are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Otherwise costs are charged to the income statement during the financial year in which they are incurred.

When production commences, the accumulated costs for the relevant area of interest are amortised on a unit of production method based on the ratio of actual production to remaining proved reserves (P1) as estimated by independent petroleum engineers over the life of the area according to the rate of depletion of the economically recoverable reserves.

The carrying amount of producing assets is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, an asset's 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. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. For producing assets, the estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are 1P hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Under a fair value less costs to sell calculation, future cash flows are based on estimates of 1P hydrocarbon reserves. Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually.

An assets carrying amount is written down to the recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Summary of Significant Accounting Policies (continued)

o) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives applied to the Group's major category of property, plant and equipment are as follows:

Class of fixed asset	Useful life
Plant and equipment	Over 5 to 15 years
Leasehold improvements	Life of lease
Motor vehicles	4 years
Computer Equipment	2.5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

p) Impairment of assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non-Financial Assets

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups and for exploration and oil & gas properties, the cash generating unit is identified by field basis. Impairment losses are recognised in the statement of financial position. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

q) Contributed Equity

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Summary of Significant Accounting Policies (continued)

r) Financial Instruments

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 how the Group manages the financial assets and the contractual terms of the cash flows. At 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

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.

s) Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the statement of financial position date are recognised in respect of employees' services rendered up to statement of financial position date and measured at amounts expected to be paid when the liabilities are settled.

Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of Other Payables and liabilities for annual and sick leave are included as part of Employee Benefit Provisions.

Long Service Leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the statement of financial position date using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the statement of financial position date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

t) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

Fair value measurement hierarchy

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Summary of Significant Accounting Policies (continued)

t) Fair Value Measurement (continued)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the accounting policies, management has made certain judgements or estimations which have an effect on the amounts recognised in the financial information.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

i. Capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluate on asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

ii. Oil & gas properties

As discussed in note 2(n) producing assets are amortised on a unit of production basis on P1 reserves. P1 reserve has been determined by an independent expert. The method of amortisation necessitates the estimation of oil & gas reserves over which the carrying value of the relevant asset will be expensed to profit or loss. See 3(iii) for judgments relating to reserve estimates. Producing assets are assessed for impairment when facts or circumstances suggest that carrying amount of a producing asset may exceed its recoverable amount. See note 2(n) for details.

iii. Reserve estimates

Estimation of reported recoverable quantities of proved and probable reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact assets' carrying amounts, provision for restoration and recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, amortisation and impairment charged to the income statement.

iv. Share-based Payments

Under AASB 2 Share Based Payments, the company must recognise the fair value of options, shares and performance rights granted to directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in the statement of Profit or Loss and Other Comprehensive Income with a corresponding adjustment to equity.

The company provides benefits to employees (including directors) of the Company in the form of share based payment transactions. The costs of these equity-settled transactions with employees (including directors) is measured by reference to the fair value at the date they were granted. The fair value of options is determined using the Black-Scholes option pricing model.

4. Financial Risk Management

The Group activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Group Finance Department under the authority of the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit allowances, and future cash flow forecast projections.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Financial Risk Management

Categories of Financial Instruments:

	2018 US$	2017 US$
Financial Assets		
Cash and cash equivalents	307,236	2,794,081
Trade and other receivables	478,421	850,178
	785,657	3,644,258
Financial Liabilities		
Trade and other payables	770,639	1,486,602
Borrowings	3,811	4,212
	774,450	1,490,814

(i) Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Group operates internationally but has minimal exposure to foreign exchange risk as the majority of transactions, assets and liabilities are in its functional currency.

(ii) Interest rate risk

At the end of the reporting period, the interest rate profile of the Group's interest bearing financial instruments as reported to the management of the Company was as follows:

	2018		2017	
	Average interest rate	Balance US$	Average interest rate	Balance US$
Financial assets				
Cash and cash equivalents	0.2%	307,236	0.6%	2,794,081
Term deposit	-	-	2.4%	72,058
Financial liabilities				
Borrowings	-	(3,811)	-	(4,212)
		303,425		2,789,869

Other than cash and other short term deposits, all the Group's financial assets are non-interest bearing.

Cash flow sensitivity analysis for variable rate instruments

As at 31 December 2018, for the balances above, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, pre-tax profit/(loss) for the year would have been $3,072 lower/higher (2017: $27,899 lower/higher).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Financial Risk Management (Continued)

(iii) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Certain businesses within the Group are largely reliant on a small number of customers which increases the concentration of credit risk. However, as the Group deals mainly with large reputable clients, the concentration of credit risk is minimised. Management does not expect any losses as a result of counterparty default.

At reporting date, there was no significant concentration of credit risk at Group level as all cash and cash equivalents and term deposits were held in AA & A+ credit rated banks (S&P). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position.

Receivables balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant. The receivable balances are held in the same currency as the functional currency of the entities to which they relate therefore there is no foreign currency risk.

(iv) Liquidity risk

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Group being unable to meet its obligations in an orderly manner as they arise.

The Group's liquidity position is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner. The Group is primarily funded through on-going cash flow, debt funding and equity capital raisings, as and when required.

Management regularly monitors actual and forecast cash flows to manage liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity Group's based on their contractual maturities.

2018	Carrying Amount	Contracted Cash Flows	Less than 1 month	1-3 months	3 months - 1 year	1 - 5 years
Trade and Other Payables	770,639	770,639	770,639	-	-	-
Borrowings	3,811	3,811	-	3,811	-	-
	774,450	774,450	770,639	3,811	-	-

2017	Carrying Amount	Contracted Cash Flows	Less than 1 month	1-3 months	3 months - 1 year	1 - 5 years
Trade and Other Payables	1,486,603	1,486,603	1,486,603	-	-	-
Borrowings	4,212	4,212	-	-	-	4,212
	1,490,815	1,490,815	1,486,603	-	-	4,212

(v) Fair value of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

(vi) Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of its equity balance.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Financial Risk Management (continued)

The Company's Board of Directors review the capital structure of the Company and as a part of this review, considers the cost of capital and the risk associated with each class of capital. There were no changes in the Company's approach to capital management during the year.

The Company's capital structure consists of debt, which includes the borrowings disclosed in Note16, cash and cash equivalents, equity attributable to the equity holders of the parent comprising issued capital, reserves and retained earnings.

The Company is not subject to externally imposed capital requirements. The gearing ratio at the end of the reporting period was as follows:

	2018 US$	2017 US$
Cash and cash equivalents	307,236	2,794,081
Less Debt	(3,811)	(4,212)
Net cash/(debt)	303,424	2,789,869
Net cash/(debt) plus equity	5,012,599	22,487,251
Net cash to net debt plus equity	6%	12%

5. Segment information

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

The Company believes that the aggregation of the market sectors for segment reporting purposes is appropriate. Accordingly, all market sectors have been aggregated to form one reportable segment. The Company's corporate administration function has been in Australia and the Company's operations are 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 US$4,688,563 was capitalised as exploration and evaluation expenditure and oil and gas properties in the statement of financial position. The remaining 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.

Geographical information	Segment Loss (US$)		Segment Assets (US$)	
	2018	2017	2018	2017
Australia	587,404	1,337,933	253,990	2,265,325
USA	15,160,083	3,075,010	5,229,636	19,677,651
Total	15,747,488	4,412,943	5,483,625	21,942,977

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

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

6. Loss before income tax

Loss before tax is arrived after charging following expenses	2018 US$	2017 US$
Consultancy fees – technical and corporate	409,448	506,847
Legal Fees	6,045	13,247
Rent and lease expense	212,132	298,758

7. Income taxes

a) Income tax recognised in profit or loss

The major components of income tax expense are:

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

b) Reconciliation income tax expense:

	2018 US$	2017 US$
Accounting loss before income tax	15,747,488	4,412,943
Income tax benefit calculated at rate of 27.5% (2017 : 27.5%)	4,330,559	1,213,559
Effect of revenue losses not recognised as deferred tax assets	(4,330,559)	(1,213,559)
Income tax reported in the consolidated Statement of profit or loss and other comprehensive income.	-	-

The deferred tax assets on revenue losses in Australia and USA have not been recognised as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised. At reporting date, group has unrecognised losses of US$5,750,523 (2017: US$3,259,518) and unrecognised deferred tax balances of $1,581,394 (2017: $1,491,220).

8. Auditor's remuneration

a) BDO

	2018 US$	2017 US$
Audit and other assurance services	47,089	41,196
Other services – taxation advice, independent expert report	5,100	9,241
Total remuneration of BDO	52,189	50,437

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. Loss per share

	2018 Cents per share	2017 Cents per share
Basic loss per share (using weighted average number of shares)	(5.52)	(1.89)
Diluted loss per share (using weighted average number of shares)	(5.52)	(1.89)

a) Earnings used in calculating earnings per share

	2018 US$	2017 US$
For basic earnings per share		
Net loss attributable to ordinary equity holders of the parent	(15,747,488)	(4,412,943)
For diluted earnings per share		
Net loss attributable to ordinary equity holders of the parent	(15,747,488)	(4,412,943)

b) Weighted average number of shares used

	2018 No. Shares	2017 No. Shares
Weighted average number of shares used in calculating basic and diluted earnings per share	285,148,832	233,885,882
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	285,148,832	233,885,882

10. Cash and cash equivalents

	2018 US$	2017 US$
Cash at bank	307,236	2,797,081
	307,236	2,794,081

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. Cash and cash equivalents (continued)

a) Reconciliation of net profit after tax to net cash flows from operation

	2018 US$	2017 US$
Net loss	(15,747,488)	(4,412,943)
Adjustments for:		
Depreciation of non-current assets	9,826	-
Interest received classified as investing cash flow	(2,007)	(14,715)
Depletion expense	599,471	2,375,518
Impairment expense	14,673,849	1,695,062
Share based payments	81,147	514,379
Other	(1,003)	97,681
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	371,715	(300,423)
Increase/(decrease) in trade and other creditors	(715,963)	1,050,316
Net cash flow (used in)/from operating activities	(731,023)	1,005,873

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

11. Trade and other receivables

	2018 US$	2017 US$
Trade Receivables	470,033	748,435
Term deposits	-	72,058
GST receivables	6,044	29,258
Other	2,343	427
	478,421	850,178

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. Property, Plant & Equipment

	2018 US$	2017 US$
Balance at 1 January	19,090	8,985
Additions	-	9,404
Depreciation expense	(9,286)	-
Foreign exchange difference	(399)	701
Balance at 31 December	9,405	19,090
Cost	32,103	32,103
Accumulated depreciation	(20,538)	(13,012)
Foreign exchange difference	(2,160)	-
Net carrying amount	9,405	19,090

13. Exploration and evaluation expenditure

	2018 US$	2017 US$
Balance at 1 January	16,948,845	15,002,839
Exploration and evaluation expenditure capitalised during the period	1,682,563	5,596,242
Transferred to Oil & Gas properties	(291,649)	(3,650,237)
Impairment	(14,398,526)	-
Closing balance	3,940,924	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 leases have been abandoned but it has been recognised that the carrying value of certain of the leases 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.

A 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 31 December 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.

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

14. Oil & Gas properties

	2018 US$	2017 US$
Balance at 1 January	1,330,784	1,751,126
Transferred from Exploration and evaluation expenditure	291,649	3,650,237
Depletion expense	(599,471)	(2,375,518)
Impairment	(275,323)	(1,695,062)
Closing balance	747,639	1,330,784

The estimate of the recoverable amount for oil and gas properties is based on an asset's fair value in use using a discounted cash flow method and is most sensitive to the following key assumptions:

- Obtaining lease extensions to 2033;
- P1 Recoverable reserves;
- Commodity price of US$65.56 per barrel and US$3.10 per MMBTU; (2017: US$51.34 and US$5.976 respectively)
- Operating costs and taxes at an average of 36.3% of revenue over the production period, depending on production at that time; (2017: 40%)
- Pre-tax discount rate of 10.0%.

Economical recoverable reserves represent Management's expectations at the time of completing the impairment testing and based on the reserves statements and exploration and evaluation work undertaken by appropriately qualified persons. Operating cost assumptions were based on FY18 budgets and estimates and actual costs incurred in FY18.

15. Trade and other payables

	2018 US$	2017 US$
Sundry creditors	770,639	1,486,603
	770,639	1,486,603

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Current payables are on 30-45 day payment terms.

16. Borrowings

	2018 US$	2017 US$
Class A, B and C Convertible Milestone Notes*	3,811	4,212
	3,811	4,212

*No Convertible Milestone Notes were issued during the year. Per terms below the Convertible Milestone Notes expire 30 April 2019.

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

Convertible Milestone Notes	Class A	Class B	Class C
Convertible Milestone Notes on issue	10,000	20,000	30,000
Loans due	635	1,270	1,906
Total			3,811

Terms and conditions of Convertible Milestone Notes

	Issue price A$	**Interest rate**	**Security**	**Term**	**Conversion price A$**	**Milestone**
Class A Convertible Milestone Note	0.10	Interest free	unsecured	expires on 30 April 2019	$0.0001 per fully paid ordinary share	Each Milestone Note converts to 1,000 fully paid ordinary shares in the Company upon the Company announcing to ASX that during the Term the Company has attained average daily production (net to the Company) of 500 barrels of oil equivalent (boe) per day for a period of 60 days (as determined by an independent petroleum reservoir engineer) from oil and gas leases located within Nolan County, Texas, USA.
Class B Convertible Milestone Notes	0.10	Interest free	unsecured	expires on 30 April 2019	$0.0001 per fully paid ordinary share	Each Milestone Note converts to1,000 fully paid ordinary shares in the Company upon the Company announcing to ASX that during the Term the Company has attained 2P Reserves (net to the Company) of 5,000,000 barrels of oil equivalent (boe) (as determined by an independent petroleum reservoir engineer) from oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA
Class C Convertible Milestone Notes	0.10	Interest free	unsecured	expires on 30 April 2019	$0.0001 per fully paid ordinary share	Each Milestone Note converts to 1,000 fully paid ordinary shares in the Company upon the Company announcing to ASX that during the Term the Company has attained 2P Reserves (net to the Company) of 10,000,000 barrels of oil equivalent (boe) (as determined by an independent petroleum reservoir engineer) average daily production of 1,000 BOEPD from oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

17. Issued capital

	2018 US$	2017 US$
285,148,832 (2017 : 285,148,832) fully paid ordinary shares	28,925,619	28,937,201

Fully paid ordinary shares	Number of Shares	Share capital US$
Balance at 1 January 2017	215,416,672	24,172,873
Rights Issue	34,732,160	2,395,059
Placement	35,000,000	2,629,200
Costs of issues	-	(259,931)
Balance at 31 December 2017	285,148,832	28,937,201
Issue of shares	-	-
Costs of issues	-	(11,582)
TOTAL	285,148,832	28,925,619

18. Option Premium Reserves

	Number of Options	**US$**
Balance at 1 January 2017	30,000,000[1]	1,891,620
Executive Options[2]	6,500,000	-
Director Options[2]	9,000,000	-
Balance at 31 December 2017	45,500,000	**1,891,620**
Executive Options[2]	2,000,000	-
Director Options[2]	2,500,000	-
Balance at 31 December 2018	50,000,000	**1,891,620**

[1] Terms and conditions of existing options

Exercise Price	A$0.25
Expiry Date	Expire at 5.00pm WST on 30 April 2019
Exercise Period	The Options are exercisable at any time on or prior to the Expiry Date
Entitlement	Each Option entitles the holder to subscribe for one Share upon exercise of each Option
Shares Issued on Exercise	Shares issued on exercise of the Options rank equally with the then Shares currently on issue

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2 Share based payments

	2018 US$	2017 US$
Balance at 1 January	502,869	-
Share based payments during the year	81,147	514,379
Foreign currency translation	-	(11,510)
Balance at 31 December	584,016	502,869

2018

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 are as follows:

Name	No of options granted	No of options vested	No of options forfeited	Outstanding at 31 December 2018	Exercisable at 31 December 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**

Vesting conditions

Executive	Options	Vesting conditions
James	500,000	Fully vested from the date of their grant
Allchurch	500,000	Vest after a period of 12 months of continued further service from the date of grant
Brian	500,000	Fully vested from the date of their grant
Mallick	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 1.052 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	$0.01052

2017

During the previous year, the Company issued 6,500,000 share options to executives of the company subject to vesting conditions and another 9,000,000 options to company directors approved by shareholders.
Details of options issued are as follows:

Name	No of options granted	No of options vested	No of options forfeited	Outstanding at 31 December 2018	Exercisable at 31 December 2018
Executive options					
Hugh Idstein	3,500,000	2,500,000	-	1,000,000	2,500,000
Austin Gard	1,000,000	500,000	-	500,000	500,000
Eldar Hasanov	500,000	250,000	-	250,000	250,000
Julian Ayala	500,000	250,000	-	250,000	250,000

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

Stephen Hermeston	1,000,000	500,000	-	500,000-	500,000
Total	**6,500,000**	**4,000,000**	**-**	**2,500,000**	**4,000,000**
Directors options					
Neville Henry	5,000,000	5,000,000	-	-	5,000,000
Peter Allchurch	500,000	500,000	-	-	500,000
John Kenny	2,500,000	2,500,000	-	-	2,500,000
James Hodges	500,000	500,000	-	-	500,000
Larry Liu	500,000	500,000	-	-	500,000
Total	**9,000,000**	**9,000,000**	**-**	**-**	**9,000,000**

Vesting conditions

Executive	Options	Vesting conditions
Hugh Idstein	2,500,000	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
	500,000	Vest after a period of 24 months of continued further service from the date of grant
Austin Gard	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
Eldar Hasanov	250,000	Fully vested from the date of their grant
	250,000	Vest after a period of 12 months of continued further service from the date of grant
Julian Ayala	250,000	Fully vested from the date of their grant
	250,000	Vest after a period of 12 months of continued further service from the date of grant
Stephen Hermeston	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 AUD$4.6 cents and AUD$6.9 cents per share for executive options and AUD$4.5 cents per share for director's options were calculated. The following inputs were used in the calculation:

	Executive options	Executive options	Directors options
Valuation date (equal to grant date under AASB 2)	9 March 2017	2 November 2017	12 April 2017
Exercise price	12 cents	12 cents	12 cents
Expiration date	31 January 2022	31 January 2022	31 January 2022
Share price at valuation date	$0.081	$0.125	$0.080
Risk free rate of interest	2. 39% p.a.	2.23%	2. 04% p.a.
Company share price volatility	80% p.a.	80%	80% p.a.
Fair value	$0.046	$0.069	$0.045

19. Foreign currency translation reserve

	2018 US$	2017 US$
Balance at 1 January	(2,887,079)	(3,170,924)
Movement in foreign currency translation reserve	(65,065)	283,845
Balance at 31 December	**(2,952,144)**	**(2,887,079)**

Exchange rate differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 2 (c).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. Accumulated Losses

	2018 US$	2017 US$
Balance at 1 January	(7,992,449)	(3,579,506)
Movement in accumulated losses	(15,747,488)	(4,412,943)
Balance at 31 December	**(23,739,937)**	**(7,992,449)**

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

21. Key management personnel

Key management personnel compensation	2018 US$	2017 US$
Short-term employee benefits	450,505	452,910
Post-employment benefits	33,489	701
Share-based payment	19,668	310,594
	503,662	764,205

Refer to the remuneration report contained in the Directors' Report for details of remuneration paid or payable to each member of the Company's key management personnel.

22. Commitments and contingencies

Operating lease commitments	2018 US$	2017 US$
Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:		
Within 1 year	30,000	134,865
After 1 year but not more than 5 years	-	-
More than 5 years	-	-
	30,000	134,865

Capital expenditure commitments
There are no capital commitments at 31 December 2018.

Other expenditure commitments
There are no other expenditure commitments at 31 December 2018.

23. Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 2 for a summary of the significant accounting policies relating to the Group.

	2018 US$	2017 US$
Assets		
Current assets	247,559	2,255,640
Non-current assets	-	9,686
Total assets	247,559	2,265,326
Liabilities		
Current liabilities	136,628	66,970
Non-current liabilities	-	4,212
Total liabilities	136,628	71,182

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

Equity		
Issued capital	28,925,619	28,937,201
Accumulated losses	(28,338,179)	(26,214,253)
Option premium reserve	1,891,620	1,891,620
Share based payment reserve	584,016	502,869
Foreign currency translation	(2,952,144)	(2,923,293)
Total equity	110,932	2,194,144

Financial Performance

	2018 US$	2017 US$
Loss for the year	(2,087,404)	(1,337,933)
Other comprehensive loss	(36,522)	247,630
Total comprehensive loss	(2,123,926)	(1,090,303)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation	Proportion of ownership interest and voting power held by the Group
Winchester Energy LLC	Oil and Gas Exploration	USA	100%
Winchester Energy USA Holding Inc.	Oil and Gas Exploration	USA	100%

25. Contingent assets and liabilities

On the 24 June 2014, Winchester entered into a purchase agreement to acquire the working interest in oil and gas leases located in Nolan County, Texas from the shareholders of CEP Nolan Partners Inc. The Company will be required to pay the vendors being the various shareholders of CEP, US$3.1 million on the achievement of commercial scale successful oil and gas production from at least 4 wells on or before 30 April 2019 with commercial scale being defined as 250 boepd per well during the first 30 days initial production across at least 4 wells. Mr Peter Allchurch, a Non-Executive director of the Company, a company associated with the Managing Director, Mr Neville Henry and a discretionary trust associated with a Non-Executive Director, Mr John D. Kenny, are each Vendors. Accordingly, each of the Directors (or entities with whom they are associated) will receive a proportion of the contingent consideration payable by the Company.

It is unlikely that the commercial scale as defined above will eventuate prior to 30 April 2019 and hence it is unlikely that payment will be made to the Vendors.

26. 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.

27. Related party transactions

During the year Winchester Energy LLC paid US$52,065 to Siena Energy LLC, a company owned by Neville Henry and Hugh Idstein for use of server, software, data and data room services. During the year Winchester Energy LLC paid US$959,992 to TRL Operating Services a shared services company owned by Neville Henry and Hugh Idstein for office personnel, rent, office equipment & furniture and shared office overhead. The payments are all "arms length" transactions on a cost reimbursement basis and includes Neville Henry's annual salary of USD$180,000.

28. Events after reporting date

The Company announced a non-renounceable Rights Issue on the basis of 1 share for every 2 existing shares held to raise approximately AUD$2.85m offer on 7 December 2018. The offer closed on 4 February 2019. Under the offer 42,399,079 new shares were applied for and subsequently issued and allotted on 11 February 2019.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

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INDEPENDENT AUDITOR'S REPORT

To the members of Winchester Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Winchester Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 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 opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying Value of Oil & Gas Properties

Key audit matter	How the matter was addressed in our audit
At 31 December 2018 the carrying value of Oil and Gas Properties represents a significant balance to the Group as disclosed in Note 14. During the year the Group identified indicators of possible impairment relating to the asset. As a result, the Group undertook an impairment assessment and recognised an impairment charge as disclosed in Note 14. Refer to Note 2 (n) and Note 3 (ii) for the detailed disclosures that include the related accounting policies and the critical accounting judgements and estimates. This is a key audit matter as the carrying value requires management to make significant accounting judgements and estimates in producing the impairment model used for determining recoverable amount of the Oil & Gas Properties.	We evaluated management's impairment model at 31 December 2018 by challenging estimates and assumptions used by management in arriving at their assessment. Our work included but was not limited to the following procedures: ➢ Obtaining and reviewing the reserve report prepared by management's external expert including assessing the competency and objectivity of management's expert; ➢ Benchmarking and analysing the Group's oil and gas price assumptions against external market data; ➢ Challenging the appropriateness of management's discount rate used in the impairment model in conjunction with our internal valuation experts; ➢ Checking the reasonableness of the future operating cost and production cost against historical data; ➢ Checking the production forecast against reserve report provided by the management's expert; ➢ Evaluating and assessing the accuracy of the Group's calculation of the impairment charge; and ➢ Assessing the adequacy of the related disclosures in Note 2(n), Note 3 (ii) and Note 14 to the financial statements.

Carrying Value of Exploration and Evaluation Expenditure

Key audit matter	How the matter was addressed in our audit
At 31 December 2018 the carrying value of exploration and evaluation expenditure represents a significant balance as disclosed in Note 13. The carrying value of exploration and evaluation expenditure represents a significant asset of the company and judgment is applied in considering whether facts and circumstances indicate that the exploration expenditure should be tested for impairment. As a result, the asset was required to be assessed for impairment indicators in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources. This resulted in the Group recognising an impairment charge as disclosed in Note 13. The Group's accounting policy with respect to Exploration and Evaluation assets is disclosed in Note 2 (m) and Note 3 (i).	We have evaluated management's assessment of each impairment trigger per AASB 6 Exploration and Evaluation of Mineral Resources, including but not limited to: ➢ Obtaining from management a schedule of areas of interest held by the Group and selecting a sample of leases and concessions and assessed as to whether the Group had rights to tenure over the relevant exploration areas by obtaining supporting documentation such as third party confirmations; ➢ Holding discussions with management with respect to the status of ongoing exploration programmes in the respective areas of interest; ➢ Considering whether any areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; ➢ Considering whether there are any other facts or circumstances that existed to indicate impairment testing was required; and ➢ Assessing the adequacy of the related disclosures in Note 2(m), Note 3 (i) and Note 13 to the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included pages 15 to 19 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Winchester Energy Limited, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

Glyn O'Brien

Director

Perth, 29 March 2019

ADDITIONAL SHAREHOLDER INFORMATION

Ordinary share capital

The Shareholder information set out below was applicable as at 19 March 2019.

Details relating to the tenements held by the Company or its subsidiaries are set out in the Director's Report in accordance with ASX Listing Rule 5.37.

Distribution of ordinary shares

Holding Ranges	Holders	Total Units	% Issued Share Capital
1 - 1,000	11	2,008	0.00%
1,001 - 5,000	6	19,746	0.01%
5,001 - 10,000	23	191,372	0.06%
10,001 - 100,000	204	10,206,411	3.12%
100,001 - 9,999,999,999	269	317,128,374	96.82%
Totals	513	327,547,911	100.00%

Unmarketable parcels

Based on the price per security, number of holders with an unmarketable holding: 78, with total 876,102, amounting to 0.27% of Issued Capital

Voting Rights

All issued ordinary shares carry one vote per share and carry the rights to dividends.

Substantial Shareholder

Per substantial shareholder filings:

	Fully Paid	
	Number	Percentage
Mr Yang Xiangyang (Mandarin) / Mr Yeung Heung Yeung (Cantonese) and China Leader Group Pty Ltd and Inventive Holdings Ltd	70,720,076	21.59
Peter Donald Allchurch and Haifa Pty Ltd and Energetico Pty Ltd and Azuree Pty Ltd	21,573,663	6.59%

Twenty Largest Holders of Quoted Equity Securities

		Fully Paid	
		Number	Percentage
1	CHINA LEADER GROUP LIMITED	47,916,667	14.63%
2	INVENTIVE HOLDINGS LIMITED	21,074,380	6.43%
3	DARBY SMSF PTY LTD <DARBY SUPER FUND A/C>	13,883,333	4.24%
4	AZUREE PTY LTD	12,450,003	3.80%
5	JDK NOMINEES PTY LTD	12,009,837	3.67%
6	EAGLEWOOD ENERGY LLC	9,655,159	2.95%
7	SSF AUST PTY LTD <SCHMARR FAMILY S/F A/C>	9,018,158	2.75%
8	TREND E&P LLC	8,982,014	2.74%
9	BELLARINE GOLD PTY LTD <RIBBLESDALE SUPER FUND A/C>	8,821,064	2.69%
10	LUGANO HOLDINGS LLC	8,682,014	2.65%
11	SUNSET CAPITAL MANAGEMENT PTY LTD <SUNSET SUPERFUND A/C>	5,900,000	1.80%
12	PETER DONALD ALLCHURCH	4,349,753	1.33%
13	EMPARADISE PTY LTD <SCHMARR FAMILY A/C>	3,734,652	1.14%
14	MS NICOLE GALLIN & MR KYLE HAYNES <GH SUPER FUND A/C>	3,500,000	1.07%
15	MR MIROSLAW JAN MARZEC & MRS BARBARA ANNE WISZNIEWSKI <MARZEC FAMILY S/FUND A/C>	3,300,000	1.01%
16	NEWFOUND INVESTMENTS PTY LTD <NEWFOUND SUPER FUND A/C>	3,267,210	1.00%
17	BERENES NOMINEES PTY LTD <BERENES SUPER FUND NO2 A/C>	3,161,157	0.97%
18	MR KANE CHRISTOPHER WEINER	2,906,250	0.89%
19	CHATSWORTH STIRLING PTY LTD	2,898,907	0.89%
20	ENERGETICO PTY LTD	2,898,907	0.89%
TOTAL		**188,409,465**	**57.52%**
Grand Total		**327,547,911**	**100.00%**

Restricted Securities

There are no restricted securities.

Market buyback

There is no current market buyback.

Unquoted equity securities

There are 25 holders of 30,000,000 unlisted $0.25c Options expiring 30/4/2019:
There are no holders holding more than 20%:

There are 13 holders of 20,000,000 unlisted $0.12c Options expiring 31/1/2022:

Holder Name	Holding	% IC
TREND E&P LLC	5,000,000	25.0%