WINCHESTER

ENERGY LIMITED

ACN 168 586 445

HALF YEAR FINANCIAL REPORT

Half year ended 30 June 2021

ASX Code: WEL

CONTENTS

DIRECTORS' REPORT 2

DIRECTORS' DECLARATION 7

AUDITOR'S INDEPENDENCE DECLARATION 8

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 10

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 11

CONSOLIDATED STATEMENT OF CASH FLOWS 12

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS 13

AUDIT REPORT 19

CORPORATE INFORMATION

Directors

Mr James Allchurch
Mr Tony Peng
Mr Larry Liu

Company Secretary

Mr Lloyd Flint

Registered Office

Level 1, 10 Outram Street
West Perth WA 6005 Australia

Telephone: +61 8 9200 3743
Fax: +61 8 9200 3742
Email: admin@winchesterenergyltd.com
Website: www.winchesterenergyltd.com

Principal place of business

Level 1, 10 Outram Street
West Perth WA 6005 Australia

USA Office
4900 Woodway, Suite. 780,
Houston, TX 77056

Share Registry

Automic Registry Services
Level 2, 267 St George's Terrace
Perth WA 6000
Postal Address: PO Box 223
West Perth WA 6872 Australia

Telephone: +61 8 9324 2099
Facsimile: +61 8 9321 2337

Auditors

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

ASX Code: WEL

DIRECTORS' REPORT

Your Directors submit their report for the period from 1 January 2021 to 30 June 2021.

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

Mr Laurence Roe	Non-Executive Chairman (resigned 30 April 2021)
Mr Neville Henry	Managing Director (resigned 31 January 2021)
Mr Tony Peng	Non-Executive Director
Mr Larry Liu	Non-Executive Director
Mr James Allchurch	Non-Executive Director

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

Review of Operations

Drilling and Completion Activities

Winchester Energy Limited (Winchester or Company), as operator, drilled and completed several wells located within its extensive lease position in the East Permian Basin, Texas during the half year ended June 30 2021.

White Hat 2106 (Winchester 100% WI)

Drilled in July 2021, the highly successful White Hat 2106 well is on pump and producing 217 barrels of oil per day plus gas at a relatively slow initial pump rate – flow rate expected to increase with increased pump rate.

White Hat 2106 increases Winchester's total current net production to 347 barrels of oil equivalent per day[1] (boepd) - representing a 2.6 times increase in revenue.

Winchester perforated and acid-washed a 60 foot interpreted oil pay zone from 6,652-6,712 feet within the Ellenburger Formation. The well immediately surged and flowed periodically between swab runs prior to running production tubing and rods and installing a beam pump.

Oil production from White Hat 2106 is associated with considerable gas which will add further revenue on top of the current oil production.

Bast #1 Workover (Winchester 92% WI)

During the June 2021 half the Bast #1 well was recompleted and fracture stimulated in the Upper Cisco Formation and initially put on beam pump.

Encouraged by the high fluid level in the borehole, high pressure and excellent productivity from the reservoir, Winchester installed an electric submersible pump (ESP) to increase the amount of fluid able to be removed from the well from roughly 200 barrels of fluid per day (bfpd) (beam pump) to around 900 bfpd (ESP).

The well has consistently been producing approximately 15 barrels of oil per day (bopd). The workover cost of Bast #1 was approx US$120,000, making these recompletions commercially attractive.

Having demonstrated appreciable oil production in the Upper Cisco, Winchester has four other existing wells that are now candidates for re-completion and fracture stimulation which could potentially greatly improve production at very little cost.

[1] *boe (barrels of oil equivalent) - gas quantities are converted to boe using 6,000 cubic feet of gas to one barrel of oil. The conversion ratio is based on energy equivalency and does not represent value equivalency. Estimates are rounded to the nearest boe.*

McLeod 1705 (Winchester 100% WI)

Wireline logs have identified an encouraging 8 foot gross pay (5 foot net pay) interval (6,461 - 6,469 feet depth) in the Strawn Sand formation in the McLeod 1705 well drilled in June 2021.

This same approximately 8 foot thick interval is interpreted to have produced some 200,000+ barrels of oil from 4 wells located approximately 3,000 feet to the east (Bast Oil Field). If productive, McLeod 1705 would significantly expand the areal extent of this field to the west which would open numerous opportunities to significantly and inexpensively lift oil production through re-completions of existing wells as well as new drill locations.

The Company is currently running casing to incorporate the entire prospective 50 foot Strawn Sand section where strong oil and gas shows were observed. The Upper Cisco Sands will also be cased to ensure flow testing can be completed across this encouraging interval.

A perforation and fracture stimulation programme has been designed targeting the broad Strawn Sand section (incorporating the gross pay identified plus other prospective zones). This programme will occur shortly.

In conjunction with the McLeod 1705 completion, a perforation and fracture stimulation programme has been designed for the McLeod 1703 well, which was drilled in early 2020 and has produced oil and gas from the Upper Cisco formation. Formation image logs and modelling of this formation has indicated that oil and gas production rates could be enhanced by a large fracture stimulation designed to enhance permeability and access oil and gas across a broader area.

Mustang and Lightning Oil Field Well Summary

Well ID	Drilled	Formation	Oil Field	WEL WI	Status
White Hat 2002	Apr 2017	Strawn	Mustang	50%	Producing
White Hat 2003	Mar 2019	Strawn	Mustang	75%	Producing
White Hat 2005	Aug 2019	Strawn	Mustang	75%	Producing
White Hat 3902	Dec 2019	Strawn	Mustang	50%	Producing
White Hat 2006	Jan 2020	Strawn	Mustang	75%	Producing
Arledge 1602	Jul 2019	Cisco Sands	Lightning	100%	Producing
McLeod 1703	Dec 2019	Cisco Sands	Lightning	100%	Producing (awaiting re-completion)
Bast 1	1985	Strawn	Bast	92%	Producing
Bast 2	1985	Strawn	Bast	94%	Producing
Bast A-1	1985	Strawn	Bast	93%	Producing
McLeod 1705	June 2021	Strawn	-	100%	Awaiting completion
White Hat 2106	July 2021	Ellenburger	-	100%	Producing

Oil Production

The following gross oil and gas production for the half-year ending 30 June 2021 (March and June 2021 quarters) across all oil wells in which Winchester has a WI was recorded for the Company. Winchester's WI average oil production for the half-year ended June 30 2021 was 137 barrels of oil equivalent per day (boepd).

Oil Production (bo/boe)*	June Quarter 2021 (boe)	March Quarter 2021 (boe)	December Quarter 2020 (boe)	September Quarter 2020 (boe)
Gross Oil Production	**15,933**	**17,661**	23,206	23,932
WEL WI Share**	**11,857**	**13,055**	17,184	17,706

* boe (barrels of oil equivalent) - gas quantities are converted to boe using 6,000 cubic feet of gas to one barrel of oil. The 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency. Estimates are rounded to the nearest boe. ***Winchester is entitled to its Working Interest share of revenue after royalty payments to the oil and gas mineral rights owners.*

To the half-year ending 30 June 2021, Winchester's Permian Basin wells in Nolan County, Texas have produced a total gross 554,247 barrels of oil and 293 million cubic feet of gas.

Reserves and Resources

Following an independent Reserves and Resources Estimate undertaken during the June 2021 half, Winchester's share of petroleum Reserves and 'Best Estimate' or P50 Resources in its lease position in the East Permian Basin, Texas - as at 31 December 2020 - has been assessed at 496 thousand barrels of oil equivalent (mboe)of 3P reserves and a combined 11.1 million barrels of oil equivalent (mmboe) in Contingent and Prospective Resources.

The Reserves and Resources Reports were commissioned by Winchester and conducted by Texas-based independent consultant Kurt Mire of Mire Petroleum Consultants (MPC), in accordance with the definitions and guidelines set out by the United States Securities and Exchange Commission (SEC) and the 2018 Petroleum Resources Management System approved by the Society of Petroleum Engineers.

Table 1 (following) provides MPC's Reserve and Resource estimates of Winchester's net interests in its Nolan County, Texas acreage.

Reserves - WEL Net Interests - Nolan County, 31 December 2020			
	Net Reserves		BO equiv.
Category	Oil (mBO)	Gas (mmscf)	(mboe)
Proved Developed Producing (PDP)	67.3	165.7	94.9
Proved Developed Not Producing (PDNP)/Shut In	0.0	0.0	0.0
Proved Undeveloped (PUD)	56.0	65.0	66.8
Total Proved Reserves (1P)	**123.3**	**230.7**	**161.8**
Probable Undeveloped	106.9	161.5	133.8
Total Proved & Probable Reserves (2P)	**230.2**	**392.2**	**295.6**
Possible Undeveloped	153.7	279.6	200.3
Total Proved, Probable & Possible Reserves (3P)	**383.9**	**671.8**	**495.8**

Table 1a – WEL Net Reserve Estimates

Contingent Resources - WEL Net Interests - Nolan County, 31 December 2020			
	Net Contingent Resources		BO equiv.
Category	Oil (mBO)	Gas (mmscf)	(mboe)
Contingent Resources (Low Estimate; 1C)	1,472	2,828	1,944
Contingent Resources (Best Estimate; 2C)	2,923	8,572	4,352
Contingent Resources (High Estimate; 3C)	5,625	24,969	9,787

Table 1b – WEL Net Contingent Resources Estimates

Prospective Resources - WEL Net Interests - Nolan County, 31 December 2020			
	Net Prospective Resources		BO equiv.
Category	Oil (mBO)	Gas (mmscf)	(mboe)
Prospective Resources (Low Estimate; P90)	2,584	1,704	2,868
Prospective Resources (Best Estimate; P50)	5,994	4,554	6,753
Prospective Resources (High Estimate; P10)	13,512	11,969	15,507

Table 1c – WEL Net Prospective Resources Estimates

Notes:

- *Reserves are stated net to Winchester's working interest and after deductions for royalty payments.*
- *All reserves estimates were prepared using a combination of deterministic and probabilistic methods. All resource estimates were prepared using probabilistic methods. All reserves aggregation was performed by arithmetic summation. All resource aggregations was performed probabilistically.*
- *Cautionary note: the aggregate 1P estimate may be a very conservative estimate and the aggregate 3P estimate may be very optimistic due to the portfolio effects of arithmetic summation.*
- *"bbl(s)" means barrel(s); "bopd" or "boepd" means barrels of oil per day and barrels of oil equivalent per day, respectively*
- *"boe" means barrels of oil equivalent. Winchester reports boe using a gas to oil conversion based on equivalent thermal energy, i.e. 6000 cubic feet of gas = 1 barrel of oil*
- *"m" prefix means thousand; "mm" prefix means million; "scf" means standard cubic feet*
- *Production quantities are measured at the leases via a sales meter (gas) or in oil storage tanks.*
- *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.*

Net Lease Area

At 30 June 2021, the Company's lease holding totalled 13,166[2] net acres

---

[2] The Company's net acreage position varies modestly in accordance with earned interests in drilling units of the current operations.

Corporate

The Company settled technical advisor liabilities by the issue of 1,145,339 shares. 2,250,000 options were issued to a technical advisor and 2,500,000 options were issued to the Chief Operations Officer (COO) - refer to note 8.

172,761,222 shares were issued at AUD$0.016 to raise AUD$2,764,180 before costs, being the first tranche of an AUD$5.0m capital raising was completed in August 2021.

Neville Henry resigned effective 31 January 2021 and Laurence Roe resigned effective 30 April 2021.

Financial Results

Revenue from continuing operations for half year to 30 June 2021 was US$1,032,827 (2020: US$1,325,957). The company reported a net (loss)/profit before tax of US$(649,594) for the half year ended 30 June 2021 (2020: US$156,414). This result included an impairment expense for the period of US$nil (2020: nil), a depreciation and depletion expense of US$337,408 (2020: US$343,096) and share based expenses US$18,293 (2020: US$21,893). Cash position at 30 June 2021 was US$2,331,176 (31 December 2020: US$1,609,521).

Significant changes in the state of affairs

There were no significant changes in the Company's state of affairs that occurred during the half year ended 30 June 2021.

Events after the reporting date

Pursuant to approval in general meeting on 19 August 2021, the Company issued the following securities:

- 2,821,610 shares to settle technical advisor liabilities;
- 139,738,778 shares at AUD$0.016 per share to raise AUD$2,235,820 before costs being tranche 2 of the AUD$5.0m raising; and
- 37,500,000 Lead Manager Options forming part of the fees to arrange the $5.0m funding.

A 39 month lease for a new office to accommodate staff in Houston was entered into on 1 July 2021 on completion of the prior lease which ended 30 June 2021.

The impact of the COVID-19 pandemic is ongoing and while it has not significantly impacted the Group up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The Group has developed a policy and is evolving procedures to address the health and wellbeing of employees, consultants and contractors in relation to COVID-19. The timing and extent of the impact and recovery from COVID-19 is unknown but it may have an impact on activities, operations and the ability for the company to raise funds.

The full impact of the COVID–19 outbreak and the volatility of world oil markets continues to evolve as at the date of this report. As such, it is uncertain as to the impacts this will have on the Group.

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

Dividends

In respect of the period ended 30 June 2021, no dividends have been paid or declared since incorporation and the Directors do not recommend the payment of a dividend in respect of the financial period.

Auditor's independence declaration

The auditor's independence declaration is included on page 7 of the half-year report.

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

On behalf of the Directors

Mr James Allchurch
Non-Executive Director
10 September 2021

DIRECTORS' DECLARATION

The Directors declare that:

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

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

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

On behalf of the Directors

Mr James Allchurch
Non-Executive Directors
10 September 2021

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF WINCHESTER ENERGY LIMITED

As lead auditor for the review of Winchester Energy Limited for the half-year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

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

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

Ashleigh Woodley

Director

BDO Audit (WA) Pty Ltd

Perth, 10 September 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 30 June 2021

	Note	30 June 2021 US$	30 June 2020 US$
Revenue from contracts with customers		1,032,827	1,325,957
Interest income		129	3,864
Foreign exchange (expenses)/Income		6,577	234,942
Operating costs		(369,653)	(453,235)
Administration expenses	3	(961,846)	(582,445)
Depletion, Depreciation and Amortization		(337,408)	(343,096)
Share based payments	8	(18,293)	(21,893)
Finance costs		(1,927)	(7,680)
Profit/(loss) before income tax		**(649,594)**	**156,414**
Income tax benefit	4	-	-
Profit/(loss) for the period after income tax		**(649,594)**	**156,414**
Other comprehensive Profit/(loss), net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(64,625)	(272,836)
Total comprehensive loss for the period		**(714,219)**	**(116,422)**

Profit/(loss) per share for the half year attributable to the members of Winchester Energy Ltd	Cents	Cents
Basic Profit/(loss) per share (cents per share)	(0.09)	0.03
Diluted Profit/(loss) per share (cents per share)	(0.09)	0.03

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	30 June 2021 US$	31December 2020 US$
ASSETS			
Current assets			
Cash and cash equivalents		2,331,176	1,609,521
Trade and Other receivables		570,740	503,850
Total current assets		**2,901,916**	**2,113,371**
Non-current assets			
Property, plant and equipment		159,284	-
Right of use asset		-	55,018
Exploration and evaluation expenditure	5	5,239,782	5,114,838
Oil & Gas properties	6	1,581,542	861,663
Total non-current assets		**6,980,608**	**6,031,519**
TOTAL ASSETS		**9,882,524**	**8,144,890**
LIABILITIES			
Current liabilities			
Trade and other payables		1,106,061	629,834
Lease liability		-	64,387
Total current liabilities		**1,106,061**	**694,221**
TOTAL LIABILITIES		**1,106,061**	**694,221**
NET ASSETS		**8,776,463**	**7,450,669**
EQUITY			
Issued capital	7	39,031,764	37,010,043
Option Premium Reserve		1,891,620	1,891,620
Share based payment reserve		964,639	946,346
Foreign currency translation reserve		(3,072,492)	(3,007,866)
Accumulated losses		(30,039,068)	(29,389,474)
TOTAL EQUITY		**8,776,463**	**7,450,669**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 30 June 2021

	Ordinary Shares	Accumulated losses	Option Premium reserve	Share based payment reserve	Foreign Currency Translation Reserve	Total
	US$	US$	US$	US$	US$	US$
Balance at 1 January 2020	**36,968,297**	**(26,056,510)**	**1,891,620**	**933,677**	**(2,919,368)**	**10,817,716**
Profit for the period	-	156,414	-	-	-	156,414
Other comprehensive Profit/(loss)	-	-	-	-	(272,836)	(272,836)
Total comprehensive Profit/(loss) for the period	-	156,414	-	-	(272,836)	(116,423)
Transactions with owners in their capacity as owners						
Share based payment transactions	10,122	-	-	12,669	-	22,791
Issue of share capital (net of costs)	-	-	-	-	-	-
Balance at 30 June 2020	**36,978,419**	**(25,900,097)**	**1,891,620**	**946,347**	**(3,192,204)**	**10,724,084**
Balance at 1 January 2021	**37,010,043**	**(29,389,474)**	**1,891,620**	**946,346**	**(3,007,866)**	**7,450,669**
Profit for the period	-	(649,594)				(649,594)
Other comprehensive Profit/(loss)	-				(64,626)	(64,626)
Total comprehensive Profit/(loss) for the period	-	(649,594)			(64,626)	(714,220)
Transactions with owners in their capacity as owners						
Share based payment transactions				18,293		18,293
Issue of share capital (net of costs)	2,021,721	-	-	-	-	2,021,721
Balance at 30 June 2021	**39,031,764**	**(30,039,068)**	**1,891,620**	**964,639**	**(3,072,492)**	**8,776,463**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 30 June 2021

	Note	30 June 2021 US$	30 June 2020 US$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,000,730	1,740,754
Payments to suppliers and employees (inclusive of GST)		(890,690)	(1,970,328)
Interest paid		(1,301)	(6,985)
Net cash generated by/(used in) operating activities		108,739	(236,559)
Cash flows from investing activities			
Payment for exploration activities		(1,125,294)	(2,650,760)
Interest received		129	3,864
Purchase of property, plant, equipment and software		(161,203)	-
Net cash used in investing activities		(1,286,368)	(2,646,896)
Cash flows from financing activities			
Proceeds from issue of shares and options		2,158,375	-
Costs associated with the issue of securities		(136,654)	-
Lease liability payments		(64,387)	(55,265)
Repayment of borrowings		-	-
Net cash generated by financing activities		1,957,334	(55,265)
Net increase/(decrease) in cash and cash equivalents		779,704	(2,938,719)
Cash and cash equivalents at beginning of the period		1,609,521	5,415,985
Effect of exchange rate changes on balance of cash held in foreign currencies		(58,050)	(38,903)
Cash and cash equivalents at the end of the period		**2,331,176**	**2,438,363**

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2021

1. Summary of Significant Accounting Policies

a) Basis of preparation and compliance statement

The consolidated interim financial report for the half-year reporting period ended 30 June 2021 has been prepared in accordance with the Corporations Act 2001 and AASB 134: Interim Financial Reporting. Compliance with AASB 134 ensures compliance with the International Financial Reporting Standard IAS 34 Interim Financial Reporting.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

The accounting policies adopted are consistent with those adopted and disclosed in the Company's Annual Report for the year ended 31 December 2020 unless otherwise stated.

Going Concern

The financial statements have been prepared on the basis that the Consolidated Entity is a going concern, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

For the period ended 30 June 2021 the Group had a cash and cash equivalents balance of $2,331,176, positive operating cash flows of $108,739 a working capital balance of $1,795,855 and recorded a loss of $(649,594).

The ability of the Group to continue as a going concern is dependent on the Group securing additional funding through the issue of equity, 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.

The impact of the COVID-19 pandemic has resulted in unprecedented uncertainty in the global financial markets. 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 have prepared a cash flow forecast for a period of 12 months beyond the sign off date of this half-year report and believes there is sufficient funds to meet the Groups working capital requirements.

The financial statements have been prepared on the basis that the Group is a going concern 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;
- Cash spending can be reduced or slowed below its current rate if required; and
- The Directors are continuing to explore alternative options in an effort to mitigate the possible impact of COVID-19.

Should the Consolidated 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.

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2021

Company's functional currency is Australian dollars and other entities are US dollars. The consolidated financial statements are presented in US dollars.

Amended accounting standards

The impact of 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.

2. Segment information

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

The Company has one reportable segment being the Oil and Gas operations in the USA. For the purposes of this disclosure, the operations carried out are in respect of the acquisition and drilling program of the Company's oil and gas leases of which $7,050,567 capitalised as exploration and evaluation expenditure and $1,297,976 is capitalised as oil and gas properties in the statement of financial position. The remaining unallocated items in the statement of profit or loss and statement of financial position are in relation to the Company's administrative functions in Australia and USA.

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

	Segment Revenue (US$)		Segment Profit/(loss) (US$)		Segment Assets (US$)		Segment Liabilities (US$)	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Unallocated	129	3,776	433,863	(99,560)	1,448,811	1,573,274	84,605	99,751
USA	1,032,827	1,326,045	215,731	255,973	8,433,713	6,571,616	1,021,456	594,470
Total	**1,032,956**	**1,329,821**	**649,594**	**156,413**	**9,882,524**	**8,144,890**	**1,106,062**	**694,221**

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

3. Administration expenses

	30June 2021 US$	30 June 2020 US$
Consultancy fees	366,998	277,802
Legal Fees	58,807	18,453
Rent	-	10,524
Accounting & compliance expense	13,643	40,575
Employee benefit expense	407,927	70,961
Other expenses	114,471	164,130
Total	961,846	582,445

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2021

4. Income taxes

a) Income tax recognised in profit or loss

The major components of income tax expense are:

	30 June 2021 US$	30 June 2020 US$
Current tax	-	-
Deferred tax	-	-
Income tax benefit reported in the Statement of profit or loss and other comprehensive income.	**-**	**-**

b) Reconciliation of income tax expense:

	30June 2021 US$	30 June 2020 US$
Profit/(loss) before income tax	(633,679)	156,413
Income tax benefit calculated at rate of 27.5% (2020: 27.5%)	(174,262)	43,014
Effect of revenue losses not recognised as deferred tax assets	174,262	(43,104)
Income tax reported in the consolidated Statement of profit or loss and other comprehensive income.	**-**	**-**

5. Exploration and evaluation expenditure

	30 June 2021 US$	31 December 2020 US$
Opening balance	5,114,838	4,803,971
Exploration and evaluation expenditure capitalised during the period	124,940	2,660,384
Transferred to Oil & Gas properties	-	(1,734,812)
Impairment	-	(614,703)
Closing balance	**5,239,778**	5,114,838

The write down of exploration expenditure for the year ended 31 December 2020 relates to a number of oil leases over the total acreage leased by Winchester Energy Limited. No leases have been abandoned. In certain circumstances costs have been written off where it was perceived there might be diminished prospectivity of securing production and more prospective leases pursued.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2021

6. Oil & Gas properties

	30 June 2021 US$	31 December 2020 US$
Opening balance	861,663	1,181,269
Transferred from Exploration and evaluation expenditure	-	1,734,812
Additions	1,000,350	764,097
Depletion expense	(280,471)	(1,112,357)
Impairment	-	(1,706,461)
Closing balance	**1,581,542**	**861,663**

7. Issued capital

	30 June 2021 US$		31 December 2020 US$	
Fully paid ordinary shares	Number of Shares	Share capital US$	Number of Shares	Share capital US$
Opening balance	689,899,548	37,010,043	687,609,095	36,968,297
Shares in lieu of cash[1]	1,145,339	20,834	2,290,453	41,746
Placement	172,761,222	2,137,540	-	-
Costs of issue	-	(136,653)		
Closing balance	**863,806,109**	**39,031,764**	**689,899,548**	**37,010,043**

[1] Refer note 8 for details on issue of shares.

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

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2021

8. Share based payments

Technical advisor liabilities were settled by the issue of 1,145,339 shares to settle an AUD$30,000 liability. The fair value of shares at settlement resulted in a gain of AUD$3,275 on settlement.

2,250,000 options were also issued to the technical advisor. The options have an exercise price of AUD$ 10c per share expiring on 16 February 2023. 2,500,000 options were issued to the Chief Operating Officer (COO Options). The COO options have an exercise price of AUD$ 5.4c per share expiring 31 December 2025.

	30 June 2021 US$	31 December US$
Balance at 1 January	946,346	933,677
Share based payments during the period[1]	18,293	12,669
Balance at period end	964,639	946,346

[1] Reserve movement for the year has been allocated to the consolidated statement of profit and loss and other comprehensive income.

The AASB 2 fair value of the option was calculated using Black-Scholes modelling. The following inputs were used in the calculation:

	COO options	Advisor Options
Valuation date (equal to grant date under AASB 2)	22 June 2021	16 February 2021
Exercise price	5.4 cents	10 cents
Expiration date	31 December 2025	16 February 2023
Share price at valuation date	$0.017	$0.0233
Risk free rate of interest	0.5%	0.09% p.a.
Company share price volatility	100%	70% p.a.
Fair value	$0.00825	$0.00137

The value recognised on issue of the 2,250,000 Adviser Options was AUD$3,083 and the 2,500,000 COO Options had a value of AUD$20,625 recognised.

9. 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.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2021

10. Leases

The Group leases office buildings. Information about leases for which the Group is a lessee is presented below. Property, plant and equipment comprises owned and leased assets that do not meet the definition of investment property:

	Right-of-use assets, except for investment property	
	30 June 2021	31 December 2021
Statement of financial position		
Right of use asset beginning of period	278,204	278,204
Accumulated depreciation	(278,204)	(223,186)
Balance as at period end	-	55,018
Lease liability balance as at 30 June 2021	-	64,387
Statement of Profit and Loss		
Depreciation expense	55,018	111,904
Interest expense	1,301	11,368
Statement of cashflows		
Lease expenditure	(64,387)	(130,840)
Operating lease expenditure	(1,080)	(17,313)

11. Events after reporting date

Pursuant to approval in general meeting on 19 August 2021, the Company issued the following securities:

- 2,821,610 shares to settle technical advisor liabilities;
- 139,738,778 shares at AUD$0.016 per share to raise AUD$2,235,820 before costs being tranche 2 of the AUD$5.0m raising; and
- 37,500,000 Lead Manager Options forming part of the fees to arrange the $5.0m funding.

A 39 month lease for a new office to accommodate staff in Houston was entered into on 1 July 2021 on completion of the prior lease which ended 30 June 2021.

The impact of the COVID-19 pandemic is ongoing and while it has not significantly impacted the Group up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The Group has developed a policy and is evolving procedures to address the health and wellbeing of employees, consultants and contractors in relation to COVID-19. The timing and extent of the impact and recovery from COVID-19 is unknown but it may have an impact on activities, operations and the ability for the company to raise funds. The full impact of the COVID–19 outbreak and the volatility of world oil markets continues to evolve as at the date of this report. As such, it is uncertain as to the impacts this will have on the Group.

Other than the issue of shares there were no events affecting the Company after 30 June 2021.

12. Commitments and Contingencies

Capital expenditure commitments

There are no capital commitments at 30 June 2021.

Other expenditure commitments

There are no other expenditure commitments at 30 June 2021.

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Winchester Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Winchester Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the half-year ended on that date; and

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

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

Responsibility of the directors for the financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Company's financial position as at 30 June 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit (WA) Pty Ltd

BDO

Ashleigh Woodley

Director

Perth, 10 September 2021