WINCHESTER
ENERGY LIMITED

ACN 168 586 445

# HALF YEAR FINANCIAL REPORT

## Half year ended 30 June 2022

**ASX Code: WEL**

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# CORPORATE INFORMATION

**Directors**

Mr James Allchurch
Mr Tony Peng
Mr Larry Liu
Mr Douglas Holland

**Company Secretary**

Mr Lloyd Flint

**Registered Office**

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**Principal place of business**

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**USA Office**
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Houston, TX 77056

**Share Registry**

Automic Registry Services
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Perth WA 6000
Postal Address: PO Box 223
West Perth WA 6872 Australia

Telephone: +61 8 9324 2099
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**Auditors**

BDO Audit (WA) Pty Ltd
Level 9, Mia Yellagonga Tower 2
5 Spring Street
Perth WA 6000

**ASX Code:** WEL

# DIRECTORS' REPORT

Your Directors submit their report for the period from 1 January 2022 to 30 June 2022.

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

| | |
|---|---|
| Mr James Allchurch | Non-Executive Director |
| Mr Tony Peng | Non-Executive Director |
| Mr Larry Liu | Non-Executive Director |
| Mr Douglas Holland | Executive Technical Director (appointed 7 February 2022). |

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

## Review of Operations

Winchester Energy Limited (Winchester or Company), as operator, continued operations within its extensive lease position in the East Permian Basin, Texas during the half year ended 30 June 2022.

**Oil Production**

The following gross oil and gas production for the half-year ending 30 June 2022 (March and June 2022 quarters) was recorded for the Company across all oil wells in which Winchester has a working interest (WI). Winchester's WI average oil production for the half-year ended June 30 2022 was 255 barrels of oil equivalent per day (boepd).

| Oil Production (boe*) | June Quarter 2022 | March Quarter 2022 | December Quarter 2021 | September Quarter 2021 |
|---|---|---|---|---|
| Gross Oil Production | 19,090 | 31,043 | 46,911 | 22,245 |
| WEL WI Share+ | 17,873 | 28,313 | 42,713 | 18,784 |

** 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.*

**Well Summary**

| Well ID | Drilled/Work over | 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 | Ellenburger | - | 100% | 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 |
| 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% | Producing |
| White Hat 2106 | July 2021 | Ellenburger | - | 100% | Producing |
| Group– 16A | July 2022 | Cisco Sands | Group | 75% | Production to commence shortly |
| Group– 23A | August 2022 | Cisco Sands | Group | 75% | Production to commence shortly |

**Compilation of Oil Production Forecast**

Winchester is delivering on its strategy to build sustainable high-margin oil and gas production over the coming months and years. In 2H 2022 the Winchester team will oversee a busy schedule of field activity and increasing production across Winchester's portfolio.

All of Winchester's existing and forecast production is derived from conventional reservoirs which can be immediately brought online to deliver oil and gas sales at decade-high oil prices. Total gross oil production forecasts are shown in Figure 1.

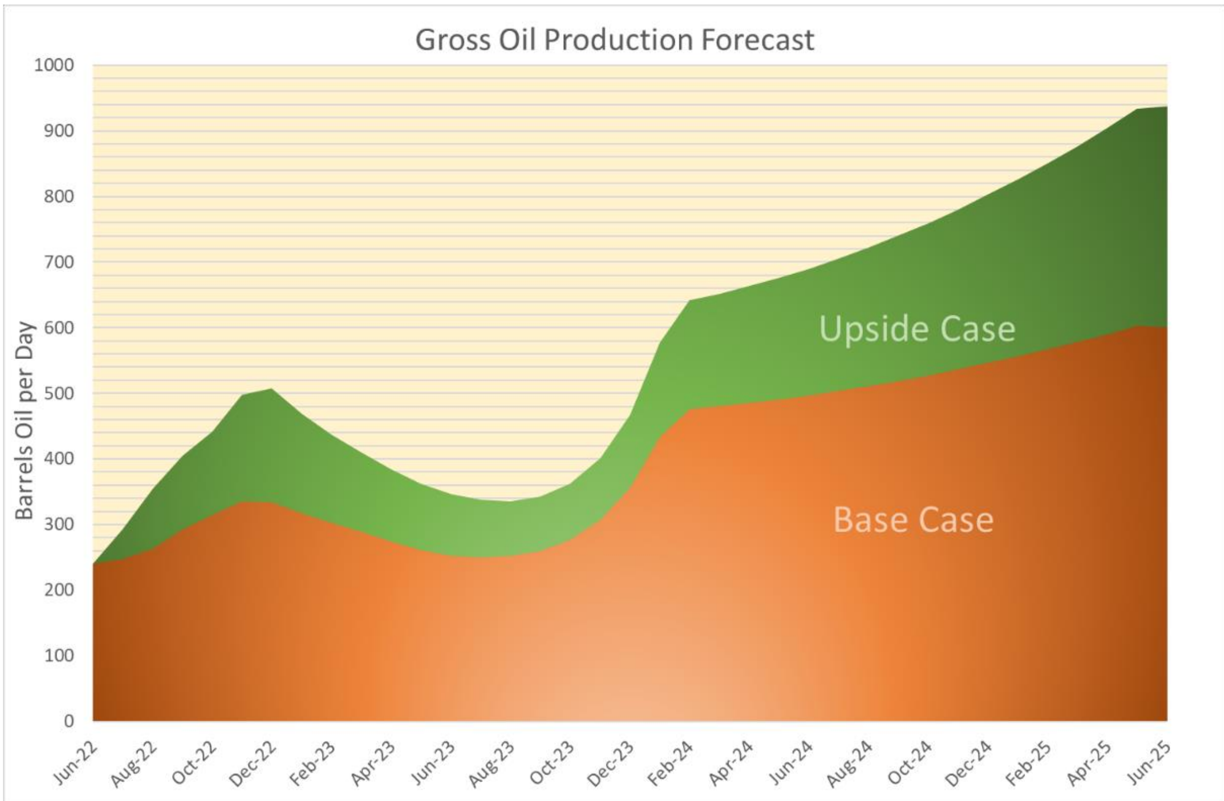


**Figure 1: Winchester Gross Oil Production Forecast – Base Case and High Case (excludes gas production)**[1]

The Group Prospect and Varn Oil Field acquisitions are expected to add significantly to Winchester's production volumes in Nolan County in the near and medium term. Crucially, both Varn and the Group Prospect include several historically oil-rich 'bonus' formations that represent significant additional upside and can be tested for minimal additional cost. Figure 2 shows oil production on a project basis using conservative base case projections.

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[1] *See 'Forecast Explanation' in ASX announcement dated 18 July 2022*

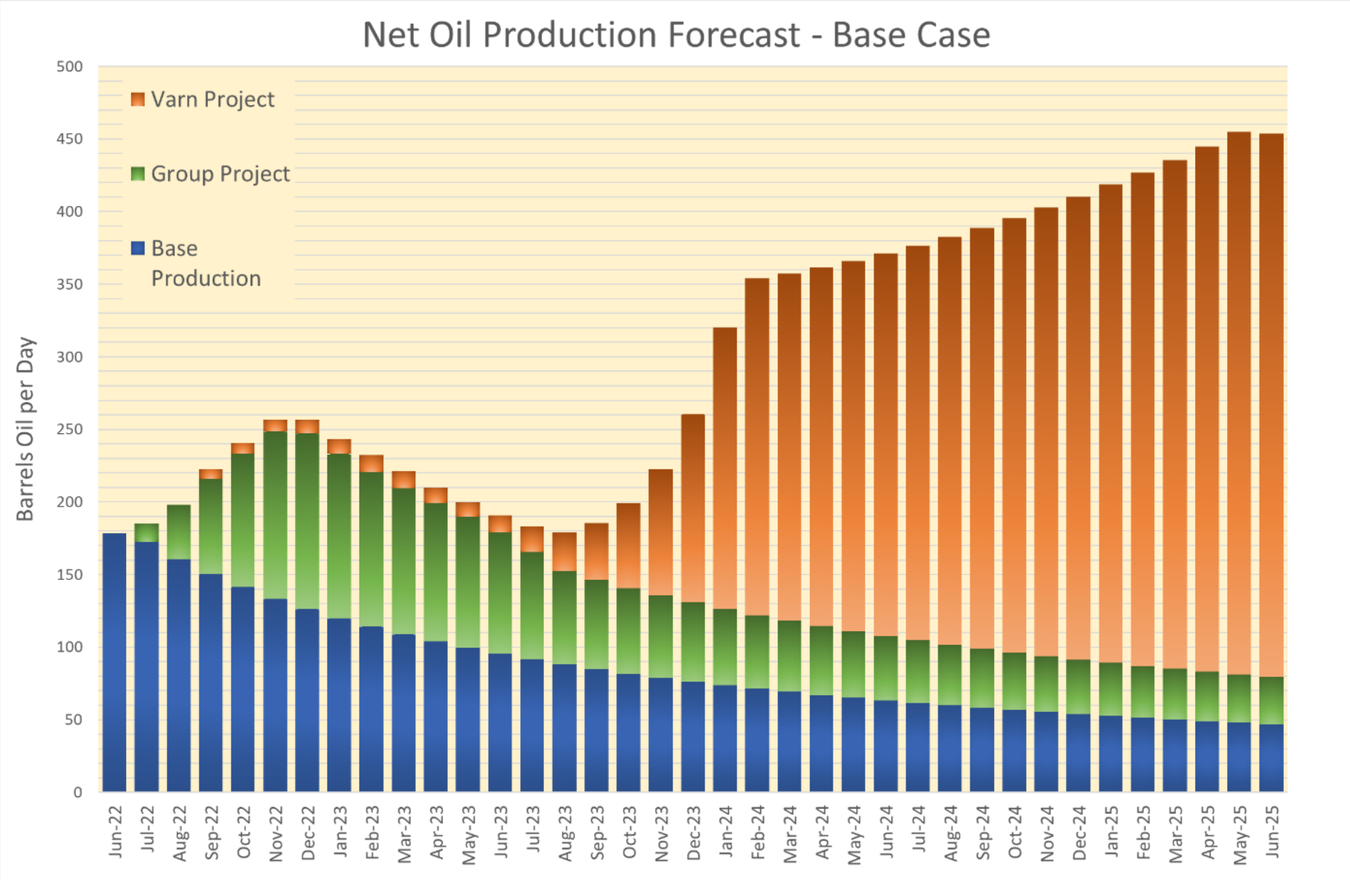


**Figure 2: Winchester Net Oil Production Forecast by Project – Base Case (excludes gas production)[2]**

**Acquisition of Group Prospect (75% WI)**

During the half ending June 30 2022, Winchester announced it had executed an agreement to farm-in to the Group Prospect which is contiguous with its 100%-owned Whiteside Prospect in Nolan County, Texas.

The Group Prospect farm-in provides Winchester with an entry into an oil play contiguous to its existing land holding and has already delivered an immediate incremental increase in the Company's oil production for minimal operational outlay.

One of the Group Prospect wells, Chapman 1, will enable Winchester to cheaply assess the stratigraphy and potential of the area that includes the Company's critical Whiteside acreage.

Winchester has taken ownership of 75% of the Group Prospect (1,320 net acres to Winchester). Details of the work commitment under the farm-in agreement are provided in Table 1.

Following the half year ended June 30 2022, Winchester announced that oil has been successfully recovered from both of the Group Prospect well workovers executed to date, being the Group16-A and Group-23A wells. Further, Group-23A is also producing higher than anticipated gas flows which will further improve the economics of the well given the current 14-year high in US natural gas prices.

*[2] See 'Forecast Explanation' in ASX announcement dated 18 July 2022*

**Table 1: Winchester work commitments under the Group Prospect farm-in**

| Activity | Commencement Date | Approx Cost | Westex Back-in after Payout* |
|---|---|---|---|
| Workover 1 (Group-16A) | 29 June 2022 (complete) | US$75,000 | 50% |
| Workover 2 (Group-23A) | 10 days after completion of Workover 1 (complete) | US$75,000 | 50% |
| Workover 3 (Chapman 1 deep test) | 10 days after completion of Workover 2 | US$250,000 | 50% |
| Workover 4 | 10 days after completion of Workover 3 | US$75,000 | 50% |
| Workover 5 | 10 days after completion of Workover 4 | US$75,000 | 50% |
| New well 1 | 19 August 2022 (date mutually extended pending finalization of title review) | US$600,000 | 25% |
| New well 2 | 14 days after completion of New well 1 | US$600,000 | 25% |
| New well 3 | 14 days after completion of New well 2 | US$600,000 | 25% |
| Additional workovers or new wells | To be determined by Winchester | To be determined | No back-in. Heads up at WI of 75% Winchester / 25% Westex |

* Westex to assume stipulated percentage of WI revenue (back-in) after Winchester recovers 100% of individual workover/new well cost from revenue (payout)

**Varn Oil Field Waterflood (100% WI)**

Operations have accelerated significantly at Winchester's Varn Oil Field (2P Reserves of over 994,000 barrels of oil (plus gas))[3], located 18 miles to the east of Winchester's existing producing assets in Nolan County, Texas.

As per the announcement of 7 July 2022, the waterflood operation is now fully permitted with 75% of above-ground infrastructure (roads, flow lines and facilities) now in place.

Winchester is the operator at Varn, which is a waterflood field operation comprising 11 wells (six oil and gas producers and five water injectors). The majority of these wells are planned for the central area where the Upper and Lower Fry Sand overlap while the rest of the wells capture oil from the more widespread Upper Fry Sand.

[3] *See ASX Release dated 3 December 2021*

**Table 2: Calculated Varn Oil Field Reserves - Mire Petroleum Consultants**

| Reserves | Product | 1P – Proved Reserve | 2P – Proved + Probable Reserve | 3P – Proved + Probable + Possible Reserve |
|---|---|---|---|---|
| Upper and Lower Fry Sands | BO | 415,000 | 994,000 | 1,680,000 |
| | MCF | 169,000 | 442,000 | 894,000 |
| | BOE | 443,000 | 1,068,000 | 1,829,000 |

*BO – barrels of oil*
*BOE – barrel of oil equivalent*
*MCF – thousand cubic feet of gas*
*Calculated Reserves incorporate WEL's net revenue interest of 77%*
*Further ASX Listing Rule 5.31 Information (Notes to Reserves) related to these reserves is provided in in the ASX release of 3 December 2021*

**Net Lease Area**

At 30 June 2022, the Company's lease holding totalled 4,910[4] net acres

# Corporate

20,000,000 options with an exercise price of AUD$0.12 expired on 31 January 2022 and 1,500,000 options with an exercise price of AUD$0.05c expired 11 June 2022.
The Company settled technical advisor liabilities by the issue of 2,007,577 shares and 2,000,000 options with an exercise price of AUD0.054c expiring 31/12/25 were issued to the technical advisor to satisfy the Company's obligations.
Douglas Holland was appointed as Executive Technical Director on 7 February 2022.
Incentive securities being 20,000,000 performance rights and 37,500,000 options approved by shareholders were issued to directors (refer Note 8).

# Financial Results

Revenue from continuing operations for half year to 30 June 2022 was US$3,621,275 (2021: US$1,032,827). The company reported a net profit/(loss) before tax of US$802,744 for the half year ended 30 June 2022 (2021: US$(649,594)). Impairment expense for the period was $671,514 (2021: nil). The result included a depreciation and depletion expense of US$482,139 (2021: US$337,408) and share based expenses of US$198,218 (2021: US$18,293). The cash position at 30 June 2022 was US$3,075,699 (31 December 2021: US$2,564,936).

# 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 2022.

# Events after the reporting date

There have been no significant events after the reporting date.

# Dividends

In respect of the period ended 30 June 2022, 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.

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

## Auditor’s independence declaration

The auditor’s independence declaration is included on page 8 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**
**13 September 2022**

# 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**
**13 September 2022**

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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 2022, 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

13 September 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## For the half year ended 30 June 2022

| | Note | 30 June 2022 US$ | 30 June 2021 US$ |
|---|---|---|---|
| Revenue from contracts with customers | | 3,621,275 | 1,032,827 |
| Interest income | | 1,439 | 129 |
| Foreign exchange (expenses)/Income | | 352 | 6,577 |
| Operating costs | | (584,933) | (369,653) |
| Administration expenses | 3 | (874,418) | (961,846) |
| Depletion, Depreciation and Amortization | | (482,139) | (337,408) |
| Impairment expense | | (671,514) | |
| Share based payments | 9 | (198,218) | (18,293) |
| Finance costs | | (9,099) | (1,927) |
| **Profit/(loss) before income tax** | | **802,745** | **(649,594)** |
| Income tax benefit | 4 | - | - |
| **Profit/(loss) for the period after income tax** | | **802,745** | **(649,594)** |
| | | | |
| **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 | | (75,426) | (64,625) |
| **Total comprehensive profit/(loss) for the period** | | **727,319** | **(714,219)** |

| 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)** | 0.08 | (0.09) |
| **Diluted Profit/(loss) per share (cents per share)** | 0.08 | (0.09) |

*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 2022

| | Note | 30 June 2022 US$ | 31December 2021 US$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 3,075,699 | 2,564,936 |
| Trade and Other receivables | | 1,079,685 | 739,364 |
| **Total current assets** | | **4,155,384** | **3,304,300** |
| **Non-current assets** | | | |
| Right of use asset | | 90,399 | 110,489 |
| Property, plant and equipment | 5 | 1,533,063 | 651,605 |
| Exploration and evaluation expenditure | 6 | 5,638,694 | 5,651,137 |
| Oil & Gas properties | 7 | 605,907 | 625,944 |
| **Total non-current assets** | | **7,868,063** | **7,039,175** |
| **TOTAL ASSETS** | | **12,023,447** | **10,343,475** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 1,440,860 | 688,679 |
| Lease liability | | 39,282 | 36,814 |
| **Total current liabilities** | | **1,480,142** | **725,493** |
| **Non-current liabilities** | | | |
| Lease liability | | 56,531 | 76,840 |
| **Total non-current liabilities** | | **56,531** | **76,840** |
| **TOTAL LIABILITIES** | | **1,536,673** | **802,333** |
| **NET ASSETS** | | **10,486,774** | **9,541,142** |
| **EQUITY** | | | |
| Issued capital | 8 | 40,381,776 | 40,361,681 |
| Option Premium Reserve | | 1,894,344 | 1,894,344 |
| Share based payment reserve | 9 | 1,424,092 | 1,225,874 |
| Foreign currency translation reserve | | (3,190,539) | (3,115,113) |
| Accumulated losses | | (30,022,899) | (30,825,644) |
| **TOTAL EQUITY** | | **10,486,774** | **9,541,142** |

*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 2022

| | 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 2021** | **37,010,043** | **(29,389,474)** | **1,891,620** | **946,346** | **(3,007,866)** | **7,450,669** |
| Loss 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** |
| **Balance at 1 January 2022** | **40,361,681** | **(30,825,644)** | **1,894,344** | **1,225,874** | **(3,115,113)** | **9,541,142** |
| Profit for the period | - | 802,745 | - | - | | 802,745 |
| Other comprehensive Profit/(loss) | - | - | - | - | (75,426) | (75,426) |
| Total comprehensive Profit/(loss) for the period | - | 802,745 | - | - | (75,426) | 727,319 |
| *Transactions with owners in their capacity as owners* | | | | | | |
| Share based payment transactions | - | - | - | 198,218 | - | 198,218 |
| Issue of share capital (net of costs) | 20,095 | - | - | - | - | 20,095 |
| **Balance at 30 June 2022** | **40,381,776** | **(30,022,899)** | **1,894,344** | **1,424,092** | **(3,190,539)** | **10,486,774** |

*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 2022

| | Note | 30 June 2022 US$ | 30 June 2021 US$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 3,286,089 | 1,000,730 |
| Payments to suppliers and employees (inclusive of GST) | | (1,339,766) | (890,690) |
| Interest paid | | (4,862) | (1,301) |
| Net cash generated by operating activities | | 1,941,461 | 108,739 |
| **Cash flows from investing activities** | | | |
| Payment for exploration activities | | (359,946) | (1,125,294) |
| Interest received | | 1,439 | 129 |
| Purchase of property, plant, equipment and software | | (979,276) | (161,203) |
| Net cash used in investing activities | | (1,337,783) | (1,286,368) |
| **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 | | (17,841) | (64,387) |
| Net cash generated by financing activities | | (17,841) | 1,957,334 |
| Net increase in cash and cash equivalents | | 585,837 | 779,704 |
| Cash and cash equivalents at beginning of the period | | 2,564,936 | 1,609,521 |
| Effect of exchange rate changes on balance of cash held in foreign currencies | | (75,074) | (58,050) |
| Cash and cash equivalents at the end of the period | | **3,075,699** | **2,331,176** |

*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 2022

### 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 2022 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 2021 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 2021 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.

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, trading profitably 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. There has also been significant volatility in world oil and gas pricing. Notwithstanding that the oil and gas prices have recovered, these conditions also indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and 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 is currently generating cashflow from operating wells;
- 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.

# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## For the half year ended 30 June 2022

**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.

**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 $5,638,694 is capitalised as exploration and evaluation expenditure and $605,907 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 2022 | 30 June 2021 | 30 June 2022 | 30 June 2021 | 30 June 2022 | 31 December 2021 | 30 June 2022 | 31 December 2021 |
| Unallocated | 1,439 | 129 | (526,755) | (433,863) | 1,441,280 | 1,766,385 | 95,886 | 37,125 |
| USA | 3,621,275 | 1,032,827 | 1,329,499 | (215,731) | 10,582,167 | 8,577,090 | 1,440,787 | 765,208 |
| **Total** | **3,622,714** | **1,032,956** | **802,745** | **(649,594)** | **12,023,447** | **10,343,475** | **1,536,673** | **802,333** |

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

## 3. Administration expenses

| | 30June 2022 US$ | 30 June 2021 US$ |
|---|---|---|
| Consultancy fees | 231,024 | 366,998 |
| Legal Fees | 7,272 | 58,807 |
| Rent | 8,994 | - |
| Accounting & compliance expense | 53,793 | 13,643 |
| Employee benefit expense | 428,623 | 407,927 |
| Other expenses | 144,713 | 114,471 |
| Total | 874,418 | 961,846 |

# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## For the half year ended 30 June 2022

### 4. Income taxes

### a) Income tax recognised in profit or loss

The major components of income tax expense are:

| | 30 June 2022 US$ | 30 June 2021 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 2022 US$ | 30 June 2021 US$ |
|---|---|---|
| Profit/(loss) before income tax | 802,744 | (633,679) |
| Income tax benefit calculated at rate of 27.5% (2021: 27.5%) | 220,755 | (174,262) |
| Effect of revenue losses not recognised as deferred tax assets | (220,755) | 174,262 |
| Income tax reported in the consolidated Statement of profit or loss and other comprehensive income. | - | - |

### 5. Property Plant and equipment

| | 30 June 2022 US$ | 31 December 2021 US$ |
|---|---|---|
| Balance at 1 January | 651,604 | - |
| Additions | 979,276 | 687,843 |
| Depreciation expense | (97,817) | (36,239) |
| **Balance at 31 December** | **1,533,063** | **651,605** |
| Cost | 1,699,222 | 719,946 |
| Accumulated depreciation | (166,159) | (68,342) |
| Foreign exchange difference | - | - |
| **Net carrying amount** | **1,533,063** | **651,605** |

# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## For the half year ended 30 June 2022

### 6. Exploration and evaluation expenditure

| | 30 June 2022 US$ | 31 December 2021 US$ |
|---|---|---|
| Opening balance | 5,561,137 | 5,114,838 |
| Exploration and evaluation expenditure capitalised during the period | 659,071 | 536,297 |
| Impairment | (671,514) | - |
| Closing balance | **5,638,694** | **5,651,137** |

In certain circumstances costs have been written off where it was perceived there might be diminished prospectively of securing production and more prospective leases pursued. Whilst all leases have been maintained in accordance with lease terms, no leases have been abandoned during the current year. On balance, it may well be that some leases will be allowed to lapse going forward. In this regard, an impairment charge of US$671,514 during the period was recorded (2021: nil). A review carried out by management on relevant wells has determined that no other leases exceed their recoverable value.

### 7. Oil & Gas properties

| | 30 June 2022 US$ | 31 December 2021 US$ |
|---|---|---|
| Opening balance | 625,944 | 861,663 |
| Additions | 344,195 | 2,179,208 |
| Depletion expense | (364,232) | (1,186,200) |
| Impairment | - | (1,228,727) |
| **Closing balance** | **605,907** | **625,944** |

### 8. Issued capital

| | 30 June 2022 US$ | | 31 December 2021 US$ | |
|---|---|---|---|---|
| **Fully paid ordinary shares** | Number of Shares | Share capital US$ | Number of Shares | Share capital US$ |
| **Opening balance** | 1,008,212,215 | 40,361,680 | 689,899,548 | 37,010,043 |
| Shares in lieu of services[1] | 2,007,577 | 20,096 | 5,812,6671 | 75,476 |
| Placement | - | - | 312,500,000 | 3,761,640 |
| Costs of issue | - | - | - | (485,479) |
| **Closing balance** | **1,010,219,792** | **40,381,776** | **1,008,212,215** | **40,361,681** |

[1] Refer note 9 for details on issue of shares.

# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## For the half year ended 30 June 2022

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.

### 9. Share based payments

| | 30 June 2022<br>US$ | 31 December 2021<br>US$ |
|---|---|---|
| **Balance at 1 January** | 1,225,873 | 946,346 |
| Share based payments during the year: | | - |
| Consultant options[1] | 8,966 | 2,316 |
| Placement fee options | - | 244,615 |
| Incentive options[2] | 182,717 | 15,498 |
| Incentive rights[3] | 6,536 | 17,098 |
| **Balance at period end** | 1,424,092 | 1,225,873 |

Note [1]
Technical advisor liabilities were settled by the issue of 2,007,577 shares to settle an AUD$30,000 liability. The fair value of shares at settlement resulted in a gain of AUD$1,894 on settlement.

2,000,000 options were also issued to the technical advisor. The options have an exercise price of AUD$0.054c per share expiring on 31/12/25. The AASB 2 fair value of the option was calculated using Black-Scholes modelling. The following inputs were used in the calculation:

| | Advisor Options |
|---|---|
| Valuation date (equal to grant date under AASB 2) | 4 February 2022 |
| Exercise price | AUD 5.4 cents |
| Expiration date | 31 December 2025 |
| Share price at valuation date | AUD$0.014 |
| Risk free rate of interest | 1.47% p.a. |
| Company share price volatility | 100% p.a. |
| Fair value | AUD$0.00627 |
| Fair value USD of 2,000,000 advisor options | USD$8,966 |

Note [2]
37,500,000 options were issued to directors. 25,000,000 of the options have an exercise price of AUD$0.03c with a 3 year term. 12,500,000 of the options have an exercise price AUD$0.06c and a 5 year term. The AASB 2 fair value of the option was calculated using Black-Scholes modelling. The following inputs were used in the calculation:

# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## For the half year ended 30 June 2022

| | 3 year Incentive Options | 5 year Incentive Options |
|---|---|---|
| Valuation date (equal to grant date under AASB 2) | 24 May 2022 | 24 May 2022 |
| Exercise price | AUD 3.0cents | AUD 6.0 cents |
| Expiration date | 24 May 2025 | 24 May 2027 |
| Share price at valuation date | AUD$0.014 | AUD$0.014 |
| Risk free rate of interest | 2.84% | 3.04% p.a. |
| Company share price volatility | 100% | 100% p.a. |
| Fair value per option | AUD$0.00668 | AUD$0.00756 |
| Total Fair value USD | USD$117,436 | USD$65,281 |

Note [3]
Pursuant to shareholder approval, the Company has issued 20,000,000 Performance Rights to Douglas Holland (or his nominee) on the terms and conditions set out below. The Performance Rights are split into three tranches and vest as follows:

| Class | Performance Rights | Vesting Milestone | Expiry Date |
|---|---|---|---|
| Tranche A | 5,000,000 | Upon the organic (ie exclusive of any purchased production assets) production of 750 barrels of oil equivalent per day (boepd) for 15 consecutive days. | Two (2) years from the date of issue |
| Tranche B | 5,000,000 | Upon the organic (ie exclusive of any purchased production assets) production of 1,250 barrels of oil equivalent per day (boepd) for 15 consecutive days. | Three (3) years from the date of issue |
| Tranche C | 10,000,000 | Upon the organic (ie exclusive of any purchased production assets) production of 2,000 barrels of oil equivalent per day (boepd) for 15 consecutive days. | Four (4) years from the date of issue |

The fair value of the option was calculated using the underlying share price. The hurdles to vest are non-market hurdles and hence Monte Carlo or Barrier methods have not been utilised. Therefore, the Performance Rights are analogous to zero-exercise price options and the underlying share price was utilised. The share based payment cost will be realised over the term of the rights.

The Performance Rights were ascribed the following value and cost realised in the current period:

| Class | Number of Performance Rights | Value | Closing Price as at 24 May 2022 $AUD | Value ascribed | Realised $USD |
|---|---|---|---|---|---|
| Tranche A | 5,000,000 | Non-market – underlying share price | $0.014 | $70,000 | 2,451 |
| Tranche B | 5,000,000 | Non-market – underlying share price | $0.014 | $70,000 | 1,634 |
| Tranche C | 10,000,000 | Non-market – underlying share price | $0.014 | $140,000 | 2,451 |

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

# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## For the half year ended 30 June 2022

### 10. Fair values of financial instruments

**Recurring fair value measurements**

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

**Fair values of financial instruments not measured at fair value**

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

### 11. Events after reporting date

There were no events affecting the Company after 30 June 2022.

### 12. Commitments and Contingencies

#### Capital expenditure commitments

There are no capital commitments at 30 June 2022.

#### Other expenditure commitments

There are no other expenditure commitments at 30 June 2022.

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# INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Winchester Energy Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the half-year financial report of Winchester Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, 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 2022 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 2022 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

13 September 2022