Lodgement of Annual Report

Date: 31 March 2017

ASX Code: WEL

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Winchester Energy Limited advises that it has lodged its audited Annual Report for the year ended 31 December 2016.

The Company adopted 31 December 2016 as its year end date and its presentation currency is USD$. All relevant numbers therefore are expressed in US Dollars.

—ENDS—

For further information please contact:

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Company Secretary
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WINCHESTER
ENERGY LIMITED

ACN 168 586 445

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2016

WINCHESTER ENERGY LIMITED
ACN 168 586 445

CONTENTS

CORPORATE INFORMATION

Directors

Mr Peter Allchurch
Mr Neville Henry
Mr James Hodges
Mr John D. Kenny
Mr Larry Liu

Company Secretary

Mr Nicholas Calder

Registered Office

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West Perth WA 6005 Australia

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Principal place of business

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USA Office
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Share register

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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 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 prospective Cline Shale 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.

As at 31 December 2016 Winchester had acquired 19,110 net acres incorporated within six leases in the highly productive Eastern Shelf of the Permian Basin in Texas, USA.

Location of the Company's 19,110 net acres in Nolan County, Texas

Oil and Gas Leases

LEASE AREAS	GROSS ACRES	MIN. INT.	LEASE NET ACRES	WI	CO. NET AC.
White Hat Ranch	7,588.20	97.23%	7,378.20	75.00%	5,463.65
Bridgford Ranch	2,311.94	100.00%	2,311.94	100.00%	2,311.94
Thomas Ranch	3,564.60	95.53%	3,401.86	100.00%	3,401.86
McLeod	4246.4	87.48%	3,924.80	100.00%	3,924.80
Arledge	3,816.30	91.77%	3,502.23	100.00%	3,502.23
Coke	505.40	100.00%	505.40	100.00%	505.40

Oil Production

The total oil production (across all oil wells in which WEL has a working interest) for the year is as follows:

	Gross Oil Production[1] (bo)	Net Oil Production to Winchester (bo) (Net 50%WI)[2]
2016 Oil Production (Gross 100%WI)	126,224	63,112
2016 Oil Sales (Gross 100%WI)	126,131	63,066

Note [1]: These figures show gross oil production from all wells and is pre-royalty. Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.
Note [2]: These figures show net oil production from all wells and is pre-royalty. Royalty payments of 23.5% are paid to the oil and gas mineral rights owners.

The following table outlines the quarter on quarter growth in oil production from the Company from the December 2015 quarter.

Gross Oil Production (bo)*	December Quarter 2016	September Quarter 2016	June Quarter 2016	March Quarter 2016	December Quarter 2015
Oil Production (Gross 100%WI)	37,876	35,428	26,159	26,761	19,774
Oil Sales (Gross 100%WI)	37,642	35,113	26,537	26,839	19,525
Net Oil Production to Winchester (bo) (50% Working Interest)*					
Quarterly Oil Production (Net)	18,938	17,714	13,080	13,380	9,887
Quarterly Oil Sales (Net)	18,821	17,556	13,269	13,420	9,763

* Please note that all production from the White Hat lease is subject to royalty payments of 23.5% to the oil and gas rights owners of the White Hat ranch. The figures represented above are pre-royalty.

In conjunction with Operator Carl E Gungoll Exploration LLC (**CEGX**), Winchester participated in three oil wells for the year ended 31 December 2016 which built upon the four oil wells drilled prior to the 2016 calendar year, with all wells located on the White Hat lease. Winchester's wholly owned USA subsidiary, Winchester Energy USA Holdings Inc., owns a 75% working interest (**WI**) in the oil and gas mineral rights of the 7,378 acres which surround and adjoin these 7 White Hat wells (Winchester 50% WI). CEGX owns the remaining 25%WI in these 7,378 acres.

Importantly, on 1 March 2017, the current 50%:50% WI arrangement transitioned to Winchester 75% WI:CEGX 25% WI in all areas outside the presently drilled 40 acre drilling units (save for 1 additional vertical well that CEGX can drill at a time of its choosing on a 50:50 basis).

Thus, as of 1 March 2017, Winchester is operator of the 7,058 acres of the White Hat ranch lease outside of the presently drilled 40 acre drilling units.

In addition to the three oil wells drilled with CEGX during the 2016 calendar year, WEL also participated in the Patterson 1R oil well, a one-off well with Operator Clear Fork Inc.

White Hat Oil Well 21#4

On 9 June 2016, Operator CEGX spud White Hat 21#4 targeting the Ellenburger Formation with a total depth of 7,032 feet. White Hat 21#4 is located approximately 1,200 feet (366 meters) to the east of White Hat 21#1.

On 29 August 2016, Winchester announced that the White Hat 21#4 well had produced 2,084 barrels of oil (**bo**), 95 barrels of water (**bw**) and 1140 thousand cubic feet (**MCF**) of gas over the preceding 11 days of reported production. Average daily production over this period was therefore 189bo, 8bw and 104MCF of gas. The White Hat 21#4 well was placed on production by the Operator on 28 July 2016 after perforating both a deep zone and an upper zone in the Ellenburger Formation. Subsequent to this announcement flow rates from White Hat 21#4 continued to rise reaching an average of 235bopd during the December 2016 quarter.

White Hat Oil Well 38#1

In September 2016 Winchester was informed by CEGX, that they had decided to immediately spud a sixth vertical well on the White Hat lease. Winchester decided to participate in the well with a 50% working interest (**WI**). The White Hat 38#1 vertical well is located 1,200 feet to the north-east of the commercially successful White Hat 21#4 vertical well. Each party paid 50% of the costs of the White Hat 38#1 vertical well. CEGX's budgeted cost for the White Hat 38#1 well totalled US$893,000.

The White Hat 38#1 vertical well reached total depth (**TD**) at 7,070 feet on 19 September 2016 and wireline logs were run on 21 September 2016. After wireline log interpretation and assessment of drill cuttings and hydrocarbon logs from the target Ellenburger Formation, Winchester and CEGX elected to run production casing and test the target Ellenburger Formation for production.

The 38#1 well recovered oil at low rates of 70-100 barrels of total fluid per day at 5-20% oil cut during swabbing from two separate zones of the Ellenburger Formation. The 38#1 well was then fracture stimulated in an attempt to improve the production rate however pump production has only recovered water at high rates (300-400 bwpd). Micro seismic was used by Winchester to monitor the frack from the White Hat 38#1 well and that indicated the frack penetrated downwards into a deeper water bearing zone, near the base of the Ellenburger Formation. Pumping of White Hat 38#1 continues and CEGX is currently attempting to pump off the water in order to attempt to eventually bring oil in.

White Hat Oil Well 38#2

Immediately following White Hat 38#1 in September 2016, Winchester elected to participate with a 50% WI in a new well, White Hat 38#2, on the White Hat ranch oil lease. White Hat 38#2 was the seventh vertical well on the White Hat ranch oil lease. The White Hat 38#2 well is located 1,470 feet directly east of the White Hat 38#1 vertical well and 2,200 feet north-east of the recent commercially successful White Hat 21#4 vertical well. Each party paid 50% of the costs of the White Hat 38#2 vertical well. CEGX's budgeted cost for the White Hat 38#2 well totalled US$893,000.

The White Hat 38#2 well reached a total depth (**TD**) of 7,128 feet on 6 October 2016. The White Hat 38#2 well swabbed oil from three separate intervals in the Ellenburger Formation, with the upper interval producing 103 bopd (testing in daylight hours). After a pump was installed, the White Hat 38#2 well had high initial production rates but also emulsion problems. Oil production has now stabilized to between 30 and 40 bopd with only minor water production.

Patterson 1R Oil Well

During the 2016 year, and as a one-off investment, the Company partnered with operator Clear Fork Inc. in the drilling of Patterson 1R, spudded on 22 August 2016. The well is located 380 feet south west of the Patterson 1 well, which produced about 100,000 barrels of oil from the Ellenburger Formation before ceasing production due to casing failure. The Patterson 1R well is located about 2,400 feet south of Winchester's successful White Hat 21#4. Winchester has a 25% working interest, 22.5 % Net Revenue Interest in the 40 acre Patterson 1R drilling unit.

On 13 September 2016 Winchester was advised by Clear Fork Inc. that following two drill stem tests (DSTs) on the Ellenburger Formation that resulted in a flow rate of 3bopd and a log analysis that indicated a depleted Ellenburger interval, it had decided to Plug and Abandon the Patterson 1R well. The total cost of the Patterson 1R well was US$286,000. Therefore Winchester's 25%WI in the Patterson 1R well in its share of the total cost being approximately US$71,500.

Subsequent to the year ended 31 December 2016 the Company advised that the White Hat 21#5, spudded in late 2016, was placed on production on 5 March 2017 after perforating and swabbing oil from both a deep zone and an upper zone in the Ellenburger Formation.

The well produced an average of 87 barrels of oil per day (**bopd**) and recovered all the load water during the first week of production. On 9 March 2017, the White Hat 21#5 well produced 150bopd. Subsequently the White Hat 21#5 production rate decreased to 25-40 bopd. The Operator is looking into mechanical causes for the sudden production drop, including possible chemical plugging. The well is presently not producing water.

The Operator has indicated it will employ specialist designed chemical treatments to improve production similar to that applied to White Hat 20#1 and White Hat 21#2, where both wells experienced significantly increased production rates after dissolution of downhole chemical precipitates that were impeding migration of oil to the well bore.

The following table represents adjusted average gross per well oil production per day for the December 2016 quarter across all wells drilled to date on the White Hat lease:

Per Well Oil Production Summary Adjusted Average BOPD December 2016 Quarter				
Oil Well	Adjusted Average Gross Oil Production Per Day (bopd)	WEL's WI %	Adjusted Average Net Oil Production to WEL (bopd)	Well Downtime* (days)
White Hat 20#1	16 bopd	50%	8 bopd	10
White Hat 20#2[1]	1 bopd	50%	0.5 bopd	59[1]
White Hat 21#1	142 bopd	50%	71 bopd	10
White Hat 21#2	37 bopd	50%	18.5 bopd	9
White Hat 21#4	235 bopd	50%	117.5 bopd	2
White Hat 38#2[2]	44 bopd	50%	22 bopd	6[2]
TOTAL	480 bopd	50%	237.5 bopd	

* The number of days a well is not producing due to maintenance, inclement weather, well workover etc

[1] Well 20#2 producing at a very low rate (1bopd) and offline most of the December quarter

[2] Well 38#2 commenced production on 11 December 2016

Continued Development of the Ellenburger – 10,000 Acre Trap Identified

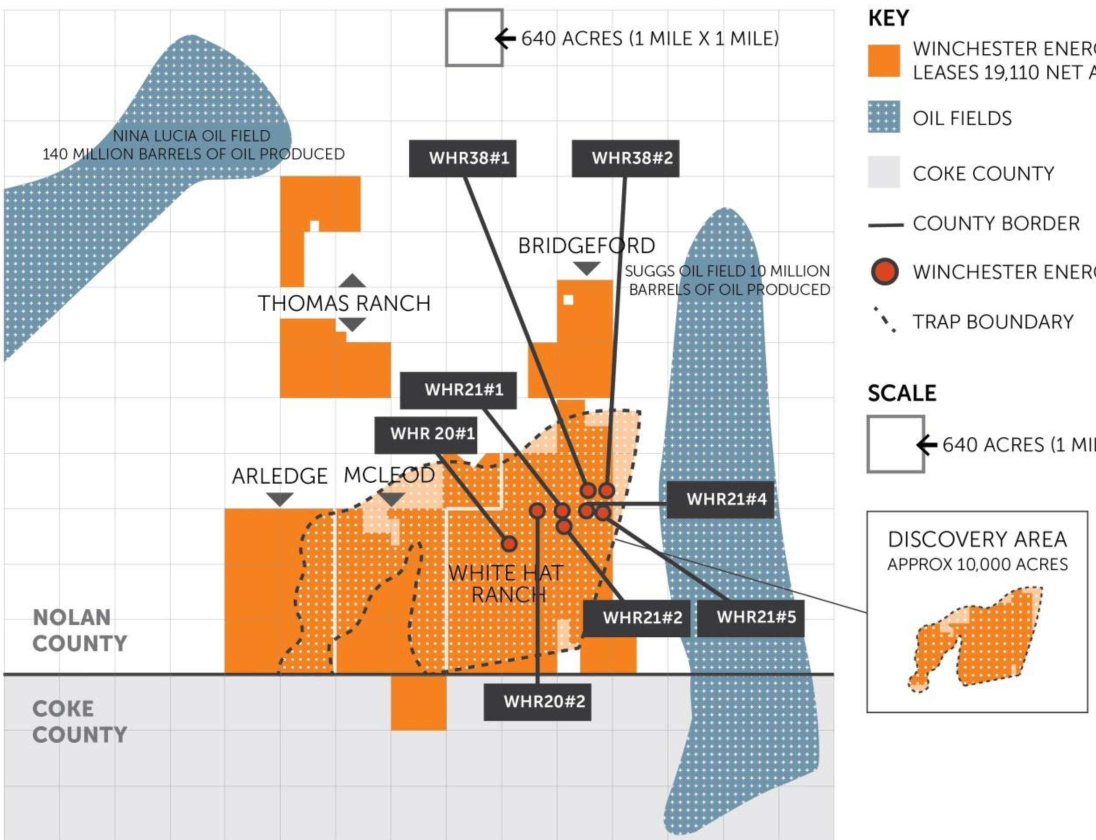
The Company has established an area of 10,000 acres (see map below) which extends over 3 leases and partially a fourth, where the Ellenburger has been proven productive in several wells and is expected to be productive based on drilling results, new technologies and 3D seismic interpretations.

The Ellenburger is variable in its reservoir characteristics, its porosity and permeability, its fracture density and the ratio of dolomite and limestone. The Company plans to test and evaluate several completion techniques (such as Ultra Short Radius multiple laterals and small vertical fracture stimulations) to improve well productivity when required. This is anticipated to improve the economics of wells which have low initial productivity with standard completions.

In the nearby 12,000 acre Suggs Oil Field, total oil production to date is around 10 million barrels from just over 100 wells, indicating an average of 100,000 barrels of oil per well. There were several excellent wells within the Suggs Oil Field with the highest producing 835,450 barrels of oil over 30 years. 15% of wells recovered over 200,000 barrels of oil and 30% of the wells produced under 50,000 barrels of oil and were subeconomic. Three wells exceeded 500,000 barrels of total oil production. The highest IP rate was 432 bopd and the average IP of the top 6% of wells was 364 bopd.

Winchester's technical team believes its Ellenburger play will have similar characteristics to the Suggs Oil Field and that utilising modern techniques to improve well productivity will significantly enhance field economics. To this end, Winchester is presently investigating improved completion techniques and new drilling approaches including short radius lateral drilling that allows for multiple short distance laterals to be drilled from a single well bore. By applying some or all of these modern techniques, Winchester plans to improve well productivity at relatively low cost.

10,000 ACRE OIL TRAP



Innovative Techniques

The Company has signed a LOI with a specialist group with proprietary short radius lateral drilling technology. The Company is planning to test the technology by drilling four 500 foot lateral sections from one vertical well bore. The Company believes this technology will allow improved well productivity as it will provide the ability to intersect multiple fracture zones. At the same time these laterals will also connect the zones of better productive characteristics in the well. The Ellenburger has been shown to have highly variable porosity due to multi staged, post depositional mineralization effects on the reservoir and we have already experienced these variations over short distances between the 8 wells drilled to date. By drilling four 500 foot laterals, Winchester believes it can expose the well bore to 2,000 gross feet of productive rock compared to about 100 gross feet in the vertical thus improving the productivity of each well significantly. The current estimated cost to drill and complete a short radius lateral well of this kind is US$1.6 million and the current cost to drill and complete a vertical well is US$890,000.

The Company is also exploring several processes that may improve EUR in wells where either the recovery factor is low, decline rates are high or the water cut is high. Many carbonate reservoirs are oil wet or become oil wet. In some cases in our wells the produced reservoir fluids have generated down hole scaling that inhibits well performance. Changes in reservoir temperature and pressure at the well face can result in precipitation of various contaminates down hole, in the tubing and/or at the pump, or at the perforations and nearby rock formation. The Company is analysing produced fluids to identify these risks and designing chemical treatments to manage the negative effects. In addition, the Company is looking into future treatments and technologies that may increase oil production and decrease water production by addressing the oil wet characteristics of the reservoir. Oil wet reservoirs means that more oil is attached to the rock surface and cannot be produced without changing the electrical charge properties that hold the oil molecules to the rock.

The Company's experienced and successful technical team has assembled a wealth of proprietary technical information on producing reservoirs along the Eastern Shelf of the Permian Basin. The Company has access to significant intellectual property that includes improved recovery techniques (IRT), reservoir permeability and fracture analyses and technologies identified to lower the costs of drilling and improve the productivity of wells. The Company intends to evaluate these improved recovery technologies over the next six months with the objective of unlocking the considerable volume of oil that remains trapped and unrecovered in several formations on the Eastern Shelf including the Ellenburger Formation.

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.

Forward-Looking Statements

This report contains forward-looking statements which are identified by words such as "believes", "estimates", "expects', "targets", "intends", "may", "will", "would", "could", or "should" and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this report, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management of the Company. These risks, uncertainties and assumptions could cause actual results to differ materially from those expressed in any forward-looking statements. The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this report, except where required by law. The Company cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this report will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 2016.

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

Mr Peter Allchurch	Non-Executive Chairman
Mr Neville Henry	Managing Director
Mr James Hodges	Independent Non-Executive Director
Mr John D. Kenny	Non-Executive Director
Mr Larry Liu	Non-Executive Director

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

Information on Directors

Mr Peter Allchurch
Non-Executive Chairman

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

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

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 Calder is a chartered accountant and registered company auditor. He was a partner of PKF Mack & Co from 2006 to 2012 before commencing NK Advisory, which provides corporate and strategic services to a number of oil and gas, mining and manufacturing companies based in Perth, Western Australia. Mr Calder graduated from the University of Western Australia with a Bachelor of Commerce.

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 31 March 2017:

	Shares	Options	Class A Convertible Milestone notes	Class B Convertible Milestone notes	Class C Convertible Milestone notes
Mr Peter Allchurch	12,278,994	4,076,828	1,981	3,962	5,943
Mr Neville Henry	5,321,787	3,777,759	1,959	3,918	5,877
Mr James Hodges	900,000	-	-	-	-
Mr John D. Kenny	11,718,994	3,516,828	1,666	3,332	4,998
Mr Larry Liu	56,114,986	4,628,099	330	660	990

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 2016 after providing for income tax was US$784,810. Net Assets of the entity as at 31 December 2016 were US$19,314,063.

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 2016.

Significant events subsequent to balance date

There have been no significant events after the balance sheet date other than events disclosed in note 28.

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 2016, no dividends have been paid or declared since 1 January 2016 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

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 Peter Allchurch	5	5	2	2	2	2
Mr Neville Henry	5	5				
Mr James Hodges	5	4	2	2	2	2
Mr John D. Kenny	5	5	2	2	2	2
Mr Larry Liu	5	4				

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, further information in relation to which is set out in the Corporate Governance section on page 43 of this report) will focus on participation of women on its Board and within senior management and has set measureable objectives for achieving gender diversity.

Auditor independence and non-audit services

The auditor's independence declaration is included on page 19 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:

	2016 US$	2015 US$
Taxation advice	36,099	17,749
Other non-audit services	4,093	741
	40,192	18,490

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 Peter Allchurch	Non-Executive Chairman	Appointed 17 March 2014
Mr Neville Henry	Managing Director	Appointed 17 March 2014
Mr James Hodges	Independent Non-Executive Director	Appointed 30 April 2014
Mr John D. Kenny	Non-Executive Director	Appointed 17 March 2014
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.

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 Neville Henry	Managing Director	3 months	None
Mr Peter Allchurch	Non-Executive Chairman	3 months	None
Mr James Hodges	Independent Non-Executive Director	3 months	None
Mr John D. Kenny	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 2016:

Name	Currency	Fees
Mr Peter Allchurch	AUD$	78,000
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) (continued)

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 2016 was as follows:

2016		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$	%
P. Allchurch	2016	58,052	-	-	-	-	-	-	58,052	0%
	2015	102,689	-	-	-	-	-	-	102,689	0%
N. Henry	2016	252,000	-	-	-	-	-	-	252,000	0%
	2015	261,000	-	-	-	-	-	-	261,000	0%
J. Hodges	2016	31,320	-	-	-	-	-	-	31,320	0%
	2015	47,395	-	-	-	-	-	-	47,395	0%
J. D. Kenny	2016	58,052	-	-	-	-	-	-	58,052	0%
	2015	102,689	-	-	-	-	-	-	102,689	0%
Larry Liu[1]	2016	26,793	-	-	-	-	-	-	26,793	0%
	2015	47,395	-	-	-	-	-	-	47,395	0%
Total	**2016**	**426,216**	**-**	**-**	**-**	**-**	**-**	**-**	**426,217**	**0%**
Total	**2015**	**561,168**	**-**	**-**	**-**	**-**	**-**	**-**	**561,168**	**0%**

1. Salary and fees were converted to USD using the average rate for the period end 31 December.

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 2016.

2016	Balance at 1 January No.	Granted as Compensation No.	Net other change No.	Balance at 31 December No.
Mr Peter Allchurch	12,278,994	-	-	12,278,994
Mr Neville Henry	5,321,787	-	-	5,321,787
Mr James Hodges	900,000	-	-	900,000
Mr John D. Kenny	11,718,994	-	-	11,718,994
Mr Larry Liu	55,192,837	-	922,149	56,114,986

2015	Balance at incorporation No.	Granted as Compensation No.	Net other change No.	Balance at 31 December No.
Mr Peter Allchurch	12,278,994	-	-	12,278,994
Mr Neville Henry	4,670,407	-	651,380	5,321,787
Mr James Hodges	900,000	-	-	900,000
Mr John D. Kenny	11,718,994	-	-	11,718,994
Mr Larry Liu	55,192,837	-	-	55,192,837

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 2016.

2016	Balance at 1 January No.	Granted as Compensation No.	Net other change No.	Balance at 31 December No.
Mr Peter Allchurch	4,076,828	-	-	4,076,828
Mr Neville Henry	3,777,759	-	-	3,777,759
Mr James Hodges	-	-	-	-
Mr John D. Kenny	3,516,828	-	-	3,516,828
Mr Larry Liu	-	-	-	-

Remuneration Report (Audited) (continued)

6. Additional statutory disclosures

Key management personnel option holdings

2015	Balance at incorporation No.	Granted as Compensation No.	Net other change No.	Balance at 31 December No.
Mr Peter Allchurch	4,076,828	-	-	4,076,828
Mr Neville Henry	3,777,759	-	-	3,777,759
Mr James Hodges	-	-	-	-
Mr John D. Kenny	3,516,828	-	-	3,516,828
Mr Larry Liu	-	-	-	-

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.

Loans to key management personnel

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

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.

On behalf of the Directors

Mr Peter Allchurch
Non-Executive Chairman
31 March 2017

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 Peter Allchurch
Non-Executive Chairman
31 March 2017

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Australia

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

As lead auditor of Glyn O'Brien for the year ended 31 December 2016, 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 period.

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 US$	2015 US$
Revenue		2,056,201	423,765
Interest income		55,569	61,591
Foreign exchange income		(46,191)	721,177
Operating costs		(302,872)	(118,646)
Depletion Expense		(1,172,187)	(450,002)
Administration expenses		(1,255,500)	(1,554,885)
Finance costs		(2,717)	(4,093)
Other expenses		(117,113)	(171,950)
Loss before income tax	6	**(784,810)**	**(1,093,043)**
Income tax benefit	7	-	-
Loss for the year after income tax		**(784,810)**	**(1,093,043)**
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	60,189	(1,546,392)
Total comprehensive loss for the year		**(724,621)**	**(2,639,435)**

Loss per share for the year		Cents	Cents
Basic loss per share (cents per share)	9	**(0.36)**	**(0.51)**
Diluted loss per share (cents per share)	9	**(0.36)**	**(0.51)**

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 2016

	Note	2016 US$	2015 US$
ASSETS			
Current assets			
Cash and cash equivalents	10	2,440,550	5,641,407
Trade and other receivables	11	549,755	227,068
Total current assets		**2,990,305**	**5,868,475**
Non-current assets			
Property, plant and equipment	12	8,985	1,421
Exploration and evaluation expenditure	13	15,002,839	13,052,468
Oil & Gas properties	14	1,751,126	1,318,406
Total non-current assets		**16,762,950**	**14,372,295**
TOTAL ASSETS		**19,753,255**	**20,240,770**
LIABILITIES			
Current liabilities			
Trade and other payables	15	435,285	198,145
Total current liabilities		**435,285**	**198,145**
Non-current liabilities			
Borrowings	16	3,907	3,941
Total non-current liabilities		**3,907**	**3,941**
TOTAL LIABILITIES		**439,192**	**202,086**
NET ASSETS		**19,314,063**	**20,038,684**
EQUITY			
Issued capital	17	24,172,873	24,172,873
Option reserve	18	1,891,620	1,891,620
Foreign currency translation reserve	19	(3,170,924)	(3,231,113)
Accumulated losses	20	(3,579,506)	(2,794,696)
TOTAL EQUITY		**19,314,063**	**20,038,684**

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 2016

	Ordinary Shares	Accumulated losses	Option Premium reserve	Foreign Currency Translation Reserve	Total
	US$	US$	US$	US$	US$
Balance at 1 January 2015	**24,172,873**	**(1,701,653)**	**1,891,620**	**(1,684,721)**	**22,678,119**
Loss for the period	-	(1,093,043)	-	-	(1,093,043)
Other comprehensive loss, net of tax	-	-	-	(1,546,392)	(1,546,392)
Total comprehensive loss for the year	-	(1,093,043)	-	(1,546,392)	(2,639,435)
Transactions with owners in their capacity as owners					
Option premium	-	-	-	-	-
Issue of share capital (net of costs)	-	-	-	-	-
	-	-	-	-	-
Balance at 31 December 2015	**24,172,873**	**(2,794,696)**	**1,891,620**	**(3,231,113)**	**20,038,684**
Loss for the year	-	(784,810)	-	-	(784,810)
Other comprehensive income, net of tax	-	-	-	60,189	60,189
Total comprehensive loss for the year	-	(784,810)	-	60,189	(724,621)
Transactions with owners in their capacity as owners					
Option premium	-	-	-	-	-
Issue of share capital (net of costs)	-	-	-	-	-
		-		-	-
Balance at 31 December 2016	**24,172,873**	**(3,579,506)**	**1,891,620**	**(3,170,924)**	**19,314,063**

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 2016

	Note	2016 US$	2015 US$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,669,181	828,060
Payments to suppliers and employees (inclusive of GST)		(1,342,347)	(1,704,055)
Interest paid		(2,717)	(4,093)
Income tax refund/(paid)		-	-
Net cash generated/(used in) by operating activities	10(a)	324,117	(880,088)
Cash flows from investing activities			
Payment for exploration activities		(3,555,276)	(4,443,162)
Interest received		55,569	67,444
Payment for term deposits		(34,310)	-
Purchase of property, plant, equipment and software		(7,564)	(3,670)
Net cash used in investing activities		(3,541,581)	(4,379,388)
Cash flows from financing activities			
Proceeds from issue of shares and options		-	-
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash generated by financing activities		-	-
Net decrease in cash and cash equivalents		(3,217,464)	(5,259,476)
Cash and cash equivalents at beginning of the period		5,641,407	12,447,714
Effect of exchange rate changes on balance of cash held in foreign currencies		16,607	(1,546,831)
Cash and cash equivalents at the end of the year	**10**	**2,440,550**	**5,641,407**

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 2016

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 2016 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 2016.

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 31 March 2017.

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 historical financial information 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.

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 2016 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

b) Basis of consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists 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 existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another 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.
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 half-year.
New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

Impact of the application of AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied these amendments for the first time in the current year. The amendments to AASB 116 Property, Plant and Equipment prohibit entities from using a revenue based depreciation method for items of property, plant and equipment.

The amendments to AASB 138 'Intangible Assets' introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:
(a) When the intangible asset is expressed as a measure of revenue, or
(b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

Impact of the application of AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements

The amendments to AASB 127 'Separate Financial Statements', allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost
- In accordance with AASB 9 'Financial Instruments' (or, where AASB 9 is not applied, AASB 139 'Financial Instruments: Recognition and Measurement'), or
- Using the equity method as described in AASB 128 'Investments in Associates and Joint Ventures'.

The Group has continued to account for its investments in subsidiaries, joint ventures and associates at cost in its separate financial statements.

Impact of the application of AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

The Group has applied these amendments for the first time in the current year. The Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012- 2014 Cycle include a number of amendments to various Accounting Standards, which are summarised below:

- The amendments to AASB 7 'Financial Instruments: Disclosures' remove the requirement to provide disclosures relating to offsetting financial assets and financial liabilities in interim financial reports and provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets
- The amendments to AASB 134 'Interim Financial Reporting' make provision for disclosures required by the Standard to be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.

The application of these amendments has had no effect on the Group's consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

Impact of the application of AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The Group has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an AASB if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in AASB is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other Accounting Standards:

a) Will not be reclassified subsequently to profit or loss
b) Will be reclassified subsequently to profit or loss when specific conditions are met.

With regards to the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The application of these amendments has not had a material presentation impact on the financial performance or financial position of the Group.

Impact of the application of AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

The Group has applied these amendments for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with AASB 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

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.

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 significant risks and rewards of ownership have been transferred, which is when title passes to the customer.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

m) Exploration and Evaluation Expenditure (continued)

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 post-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.

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

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

o) Plant and Equipment (continued)
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.

r) Financial Instruments

Recognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

2. Summary of Significant Accounting Policies (continued)

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:

- 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.

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 2016

4. Financial Risk Management (Continued)

Categories of Financial Instruments:

	2016 US$	2015 US$
Financial Assets		
Cash and cash equivalents	2,440,550	5,641,407
Trade and other receivables	549,755	227,068
	2,990,305	5,868,475
Financial Liabilities		
Trade and other payables	435,285	198,145
Borrowings	3,907	3,941
	439,192	202,086

(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:

	2016		2015	
	Average interest rate	Balance US$	Average interest rate	Balance US$
Financial assets				
Cash and cash equivalents	0.5%	2,440,550	0.5%	5,641,407
Term deposit	2.8%	69,325	2.8%	37,658
Financial liabilities				
Borrowings	-	(3,907)	-	(3,941)
		2,505,968		5,675,124

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 2016, 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 $25,060 lower/higher (2015: $56,751 lower/higher).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

2016	Carrying Amount	Contracted Cash Flows	Less than 1 month	1-3 months	3 months - 1 year	1 - 5 years
Trade and Other Payables	435,285	435,285	435,285	-	-	-
Borrowings	3,907	3,907	-	-	-	3,907
	439,192	439,192	435,285	-	-	3,907

2015	Carrying Amount	Contracted Cash Flows	Less than 1 month	1-3 months	3 months - 1 year	1 - 5 years
Trade and Other Payables	198,145	198,145	198,145	-	-	-
Borrowings	3,941	3,941	-	-	-	3,941
	202,086	202,086	198,145	-	-	3,941

(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 2016

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:

	2016 US$	2015 US$
Cash and cash equivalents	2,440,550	5,641,407
Less Debt	(3,907)	(3,941)
Net cash/(debt)	2,436,643	5,637,466
Net debt plus equity	19,317,970	20,042,625
Net cash to net debt plus equity	12%	28%

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$15,002,839 was capitalised as exploration and evaluation expenditure 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$)		Segment Assets (US$)	
	2016	2015	2016	2015
Australia	612,226	218,915	2,267,720	5,477,714
USA	172,584	874,128	17,485,535	14,763,056
Total	784,810	1,093,043	19,753,255	20,240,770

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 2016

6. Loss before income tax

Loss before tax is arrived after charging following expenses	2016 US$	2015 US$
Consultancy fees – technical and corporate	473,140	940,605
Legal Fees	19,714	31,603
Rent and lease expense	323,700	316,738

7. Income taxes

a) Income tax recognised in profit or loss

The major components of income tax expense are:

	2016 US$	2015 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:

	2016 US$	2015 US$
Accounting loss before income tax	(784,810)	(1,093,043)
Income tax benefit calculated at rate of 30%	(235,443)	(327,913)
Effect of revenue losses not recognised as deferred tax assets	235,443	327,913
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$1,073,852 (2015: US$838,409)

8. Auditor's remuneration

a) BDO

	2016 US$	2015 US$
Audit and other assurance services	43,374	38,053
Other services – taxation advice, independent expert report	40,192	18,490
Total remuneration of BDO	83,566	56,543

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. Loss per share

	2016 Cents per share	2015 Cents per share
Basic loss per share (using weighted average number of shares)	(0.36)	(0.51)
Diluted loss per share (using weighted average number of shares)	(0.36)	(0.51)

a) Earnings used in calculating earnings per share

	2016 US$	2015 US$
For basic earnings per share		
Net loss attributable to ordinary equity holders of the parent	(784,810)	(1,093,043)
For diluted earnings per share		
Net loss attributable to ordinary equity holders of the parent	(784,810)	(1,093,043)

b) Weighted average number of shares used

	2016 No. Shares	2015 No. Shares
Weighted average number of shares used in calculating basic and diluted earnings per share	215,416,672	215,416,672
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	215,416,672	215,416,672

10. Cash and cash equivalents

	2016 US$	2015 US$
Cash on hand	-	-
Cash at bank	2,440,550	5,641,407
	2,440,550	5,641,407

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. Cash and cash equivalents (continued)

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

	2016 US$	2015 US$
Net loss	(784,810)	(1,093,043)
Adjustments for:		
Depreciation of non-current assets	-	2,249
Interest received classified as investing cash flow	(55,569)	(67,444)
Depletion expense	1,172,187	450,002
Other	46,191	-
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	(291,018)	72,038
Increase/(decrease) in trade and other creditors	237,136	(243,890)
Net cash flow from operating activities	324,117	(880,088)

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

	2016 US$	2015 US$
Other Receivable	469,002	177,227
Term deposits	69,325	37,658
GST receivables	11,031	11,785
Other	397	398
	549,755	227,068

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. Property, Plant & Equipment

	2016 US$	2015 US$
Balance at 1 January/incorporation	1,421	-
Additions	7,564	2,428
Disposals	-	-
Depreciation expense	-	(1,007)
Balance at 31 December 2014	8,985	1,421
Cost	21,057	13,596
Accumulated depreciation	(12,072)	(12,175)
Net carrying amount	8,985	1,421

13. Exploration and evaluation expenditure

	2016 US$	2015 US$
Balance at 1 January	13,052,468	10,377,742
Exploration and evaluation expenditure capitalised during the period	3,555,278	4,443,134
Transferred to Oil & Gas properties	(1,604,907)	(1,768,408)
Acquisition of CEP	-	-
Closing balance	15,002,839	13,052,468

The recoverability of the carrying amounts of exploration and valuation assess is dependent on the successful development and commercial exploitation or sale of the respective are of interest.

14. Oil & Gas properties

	2016 US$	2015 US$
Balance at 1 January	1,318,406	-
Transferred from Exploration and evaluation expenditure	1,604,907	1,768,408
Accumulated depletion	(1,172,187)	(450,002)
Closing balance	1,751,126	1,318,406

15. Trade and other payables

	2016 US$	2015 US$
Sundry creditors	435,285	198,145
	435,285	198,145

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

	2016 US$	2015 US$
Class A, B and C Convertible Milestone Notes*	3,907	3,941
	3,907	3,941

*No Convertible Milestone Notes were issued during the year.

Convertible Milestone Notes	Class A	Class B	Class C
Convertible Milestone Notes on issue	9,000	18,000	27,000
Loans due	$651	$1,302	$1,954
Total			$3,907

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	0.10	Interest free	unsecured	expires on 30 April	$0.0001 per fully paid ordinary	Each Milestone Note converts to1,000 fully paid ordinary shares in the Company upon the Company announcing to ASX that during the

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

	Issue price A$	Interest rate	Security	Term	Conversion price A$	Milestone
Notes				2019	share	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

17. Issued capital

	2016 US$	2015 US$
215,416,672 fully paid ordinary shares	24,172,873	24,172,873

Fully paid ordinary shares	Number of Shares	Share capital US$
Balance at 1 January 2015	215,416,672	24,172,873
Issue of shares	-	-
Balance at 31 December 2015	215,416,672	24,172,873
Issue of shares	-	-
Balance at 31 December 2016	215,416,672	24,172,873

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. Option Premium Reserves

	Number of Options	US$
Balance at 1 January 2015	30,000,000	1,891,620
Recognition of option premium reserve		
Balance at 31 December 2015	30,000,000	1,891,620
Recognition of option premium reserve	-	-
Balance at 31 December 2016	30,000,000	1,891,620

Terms and conditions of 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

19. Foreign currency translation reserve

	2016 US$	2015 US$
Balance at 1 January	(3,231,113)	(1,684,721)
Movement in foreign currency translation reserve	60,189	(1,546,392)
Balance at 31 December	(3,170,924)	(3,231,113)

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).

20. Retained earnings

	2016 US$	2015 US$
Balance at 1 January	(2,794,696)	(1,701,653)
Movement in accumulated losses	(784,810)	(1,093,043)
Balance at 31 December	(3,579,506)	(2,794,696)

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2016

21. Key management personnel

Key management personnel compensation	2016 US$	2015 US$
Short-term employee benefits	426,216	561,168
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
	426,216	561,168

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	2016 US$	2015 US$
Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:		
Within 1 year	231,198	224,000
After 1 year but not more than 5 years	341,562	-
More than 5 years	-	-
	572,760	224,000

Finance lease commitments		
Within 1 year	-	-
After 1 year but not more than 5 years	-	-
	-	-

Capital expenditure commitments
There are no capital commitments at 31 December 2016.

Other expenditure commitments
There are no other expenditure commitments at 31 December 2016.

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.

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2016

	2016 US$	2015 US$
Assets		
Current assets	2,258,736	5,476,299
Non-current assets	18,262,569	15,593,225
Total assets	20,521,305	21,069,524
Liabilities		
Current liabilities	7,115	3,260
Non-current liabilities	3,907	3,941
Total liabilities	11,022	7,201
Equity		
Issued capital	24,172,873	24,172,873
Accumulated losses	(2,383,286)	(1,771,057)
Option premium reserve	1,891,620	1,891,620
Foreign currency translation	(3,170,923)	(3,231,113)
Total equity	20,510,284	21,062,323

Financial Performance

	2016 US$	2015 US$
Loss for the year	(612,229)	(218,915)
Other comprehensive loss	60,189	(1,546,392)
Total comprehensive loss	(552,040)	(1,765,307)

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2016

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 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, the Non-Executive Chairman 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.

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 period Winchester Energy LLC paid US$42,000 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 $761,624 to WEL Operating Services a shared services company owned by Neville Henry and Hugh Idstein for office personnel, rent, office equipment & furniture and shared office overhead.

28. Events after balance sheet date

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 2016, 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 2016 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.

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.

Carrying Value of Oil & Gas Properties

Key audit matter	How the matter was addressed in our audit
At 31 December 2016 the carrying value of Oil and Gas Properties was $1,751,126 (2015: $1,318,406) as disclosed in Note 14. Refer to Note 2 (n) and Note 3 for the detailed disclosures which include the related accounting policies and the critical accounting judgements and estimates. The assessment of carrying value of Oil & Gas properties requires management to exercise judgement in identifying indicators of impairment for the purposes of determining whether the assets need to be tested for impairment.	We evaluated management's assessment of impairment indicators at 31 December 2016 in accordance with the requirements of AASB136 Impairment of Assets. Our work included but was not limited to the following procedures: ➢ Benchmarking and analysing managements oil and gas price assumptions against external data, in conjunction with our valuation specialist, to determine whether they indicate that there has been a significant change that would impact the value of the asset; ➢ Comparing actual operating costs for producing assets during the year to budget, to determine whether they indicate a significant change that would impact the value of the asset; ➢ Obtaining and reviewing updated reserve reports from management's expert to determine whether they indicate a significant change that would impact the value of the asset. This included assessing the competency and objectivity of management's expert and holding discussions with the expert to consider if the experts work involves significant assumptions, methods and source data used in estimating reserves; ➢ We also checked that the updated reserve report was included in the calculation of depletion charges; and ➢ Comparing field production performance during the year against budget, to determine whether it indicates that there has been a significant change that would impact the value of the asset. We have also assessed the adequacy of the related disclosures in note 2(n) and Note 3 to the financial statements

Carrying Value of Oil and Gas Exploration and Evaluation Assets

Key audit matter	How the matter was addressed in our audit
At 31 December 2016 the carrying value of Oil and Gas Exploration and Evaluation Assets was \$15,002,839 (2015: \$13,052,468) as disclosed in Note 13. The Groups accounting policy with respect to Exploration and Evaluation assets is disclosed in Note 2 (m). The carrying value of exploration and evaluation expenditures 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.	We have critically 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 selected 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; ➢ held discussions with management with respect to the status of ongoing exploration programmes in the respective areas of interest; ➢ considered whether any areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; and ➢ considered whether there are any other facts or circumstances that existed to indicate impairment testing was required. We have also assessed the adequacy of the related disclosures in Note 2(m) and Note 3(i) 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 2016, 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 (http://www.auasb.gov.au/Home.aspx) 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 13 to 17 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Winchester Energy Limited, for the year ended 31 December 2016, 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, 31 March 2017

SHAREHOLDINGS

Ordinary share capital

As at 23 March 2017 Winchester Energy had 215,416,672 fully paid ordinary shares on issue which were held by 548 individual shareholders.

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

In accordance with ASX Listing Rule 4.10.19, the Company confirms that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

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.

Substantial Shareholder

	Fully Paid	
	Number	Percentage
Mr Yang Xiangyang (Mandarin) / Mr Yeung Heung Yeung (Cantonese) and China Leader Group Pty Ltd and Inventive Holdings Ltd	55,192,837	25.62%
Peter Donald Allchurch and Haifa Pty Ltd and Energetico Pty Ltd and Azuree Pty Ltd	12,278,994	5.70%
JDK Nominees Pty Ltd as trustee for the Kenny Capital Trust and Chatsworth Stirling Pty Ltd	11,718,994	5.44%
	79,190,825	36.76%

Twenty Largest Holders of Quoted Equity Securities

		Fully Paid	
		Number	Percentage
1	CHINA LEADER GROUP LIMITED	38,333,333	17.79%
2	INVENTIVE HOLDINGS LIMITED	16,859,504	7.83%
3	JDK NOMINEES PTY LTD <THE KENNY CAPITAL A/C>	8,399,869	3.90%
4	EAGLEWOOD ENERGY LLC	7,724,127	3.59%
5	AZUREE PTY LTD	6,640,001	3.08%
6	BELLARINE GOLD PTY LTD <RIBBLESDALE SUPER FUND A/C>	6,321,064	2.93%
7	ROJO NERO CAPITAL PTY LTD	5,500,000	2.55%
8	MR JASON PETERSON & MRS LISA PETERSON <J & L PETERSON S/F A/C>	4,856,130	2.25%
9	TREND E&P LLC	4,670,407	2.17%
10	LUGANO HOLDINGS LLC	4,630,407	2.15%
11	SSF AUST PTY LTD <SCHMARR FAMILY S/F A/C>	4,300,000	2.00%
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,444,652	1.60%
13	MR HUGH WALLACE -SMITH	2,635,950	1.22%
14	CITICORP NOMINEES PTY LIMITED	2,422,149	1.12%
15	DARBY SMSF PTY LTD <DARBY SUPER FUND A/C>	2,400,000	1.11%
16	PETER DONALD ALLCHURCH	2,319,868	1.08%
17	ENERGETICO PTY LTD	2,319,125	1.08%
18	CHATSWORTH STIRLING PTY LTD	2,319,125	1.08%
19	WILLIAM TAYLOR NOMINEES PTY LTD	2,300,000	1.07%
20	BERENES NOMINEES PTY LTD	2,107,438	0.98%
TOTAL		**130,503,149**	**60.58%**
Balance of Register		**84,913,523**	**39.42%**
Grand Total		**215,416,672**	**100.00%**

LAND AND LEASE HOLDINGS

The Company's lease holding is 19,110 net acres.

The Company has continous drilling provisions on each lease after the primary term expires. This allows the Company to manage its drilling program efficiently and to avoid being pressured to drill multiple wells continuously to hold its acreage position and to retain its interest over all depths and not be forced to relinquish any shallow or deeper rights. Three leases cover the 10,000 acres that is currently identified as the trap area. However, additional oil and gas is likely to be trapped in both the Thomas and Bridgeford leases and several shallow productive intervals are expected to be potentially developed in due course.

LAND AND LEASE HOLDINGS CONTINUED

The Company's lease holding is 19,110 net acres.

	% Interest	Lease	Location
Held at 31 December 2016			
	75%	White Hat Ranch	Nolan County Texas
	100%	Bridgford Ranch	Nolan County Texas
	100%	Thomas Ranch	Nolan County Texas
	100%	Mcleod	Nolan County Texas
	100%	Arledge	Nolan County Texas
	100%	Coke	Coke County Texas

Working Interest (WI) in Wells as at 31 December 2016

Well	Well unit area (acres)	% WI	Location
White Hat 21#5	40	50%	White Hat Lease
White Hat 38#2	40	50%	White Hat Lease
White Hat 38#1	40	50%	White Hat Lease
White Hat 21#4	40	50%	White Hat Lease
White Hat 20#1	40	50%	White Hat Lease
White Hat 21#1	40	50%	White Hat Lease
White Hat 21#2	40	50%	White Hat Lease
White Hat 20#2	40	50%	White Hat Lease
Thomas 119-1H	240	50%	Thomas Lease

CORPORATE GOVERNANCE

To the extent applicable, and to the extent able (given the current size and structure of the Company and the Board), the Company has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**Recommendations**). Any departures from the Recommendations are set out in the 'Departures from Recommendations' section on page 56.

In light of the Company's size and nature, the Board considers that the current Board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The corporate governance statement contained in this section and the section entitled 'Departures from Recommendations' on page 56 are current as at the date of this report and have been approved by the Board.

1. Board of Directors

The Board is responsible for the corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. Clearly articulating the division of responsibilities between the Board and management will help manage expectations and avoid misunderstandings about their respective roles and accountabilities. The responsibilities of the Board are outlined in the Company's Board Charter, available at www.winchesterenergyltd.com.

The Company is committed to ensuring that appropriate checks are undertaken before the appointment of a Director and has in place written agreements with each Director and senior executive, setting out the terms of their appointment.

2. Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. The Board currently consists of one Non-Executive Chairman, three Non-Executive Directors and only one Executive Director (who is the Managing Director of the Company). As the Company's activities develop in size, nature and scope, the composition of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

3. Ethical standards

The Board is committed to the establishment and maintenance of appropriate ethical standards.

4. Remuneration and Nomination Committee

The remuneration of any Executive Director (which includes the Managing Director) will be decided by the Board following the recommendation of the Remuneration Committee, without the affected Executive Director or Managing Director participating in that decision-making process. The Remuneration Committee is currently comprised of the Non-Executive Chairman and two Non-Executive Directors.

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).

At a General Meeting of the Company held on 28 August 2014, approval was sought from Shareholders to set the maximum aggregate remuneration payable to Directors at A$1,000,000 per annum. The determination of Non-Executive Directors' remuneration within that maximum aggregate sum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director.

In addition, subject to any necessary Shareholder approval, a Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director (e.g. non-cash performance incentives such as options).

Directors are also entitled to be paid reasonable travel and other expenses incurred by them in the course of the performance of their duties as Directors.

The Remuneration and Nomination Committee reviews and approves the Company's remuneration strategy in order to ensure that the Company is able to attract and retain executives and Directors who will create value for Shareholders, having consideration to the amount considered to be commensurate for an entity of the Company's size and level of activity as well as the relevant Directors' time, commitment and responsibility.

The Board is also responsible for reviewing any employee incentive remuneration and shares and equity-based plans.

5. Trading policy

The Board has adopted a policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel (i.e. Directors and, if applicable, any employees reporting directly to the Managing Director). The policy generally provides that the written approval of the Chairman (or a delegate of the Chairman) must be obtained prior to trading. It also set out certain 'closed periods' when key management personnel must refrain from dealing in Company securities.

6. Diversity policy

The Board values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Company has set in place a diversity policy. This policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

7. Audit and Risk Committee

The Company has established an Audit and Risk Committee which operates under a Charter which includes, but is not limited to, monitoring and reviewing any matters of significance affecting financial and corporate reporting and compliance, the integrity of the financial and corporate reporting of the Company, the Company's accounting and internal financial control systems and the Company's risk management processes and the external audit function. The Audit and Risk Committee is currently comprised of the Non-Executive Chairman and two Non-Executive Directors.

The Board's collective experience will assist in the identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

8. External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors following the recommendation from the Audit and Risk Committee.

Departures from Recommendations

Following admission to the Official List, the Company is required to report any departures from the Recommendations in its annual financial report.

The Company's compliance and departures from the Recommendations as at the date of this report are detailed in the table below.

PRINCIPLES AND RECOMMENDATIONS		COMMENT
1.	**Lay solid foundations for management and oversight**	
1.1	Companies should disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the board and those delegated to management.	The Board has adopted a formal charter setting out the responsibilities of the Board. This charter can be accessed at: www.winchesterenergyltd.com
1.2	Companies should undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director and should provide shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	The Company has undertaken appropriate police, credit and other relevant checks prior to the appointment of the Directors.
1.3	Companies should have a written agreement with each director and senior executive setting out the	Written agreements have been entered into with all Directors and senior management. In respect of new board

PRINCIPLES AND RECOMMENDATIONS		COMMENT
	terms of their appointment.	members the Company will endeavour to enter into written agreements as soon as possible.
1.4	The company secretary should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	A written agreement with the Company Secretary provides for this.
1.5	Companies should: ▪ have a diversity policy which includes requirements for the board to set measurable objectives for achieving gender diversity and assess both the objectives and the company's progress in achieving them; ▪ disclose that policy or a summary of it; and ▪ disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board in accordance with the company's diversity policy and its progress towards achieving them and either: - the respective proportions of men and women on the board, in senior executive positions and across the whole organisation; or - the company's 'Gender Equality Indicators' as defined in the Workplace Gender Equality Act 2012.	The Company has adopted a Diversity Policy which can be accessed at www.winchesterenergyltd.com. Information in relation to measurable objectives for achieving gender diversity is set out in the Directors' Report.
1.6	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors and disclose in relation to each reporting period whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The performance evaluation of board members occurs in accordance with the Remuneration and Nomination Committee Charter which can be accessed at www.winchesterenergyltd.com. Performance reviews are currently ongoing.
1.7	Companies should disclose a process for periodically evaluating the performance of its senior executives and disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The Board will meet annually to review the performance of executives. The senior executives' performance is to be assessed against the performance of the Company as a whole. Performance reviews are currently ongoing.
2.	**Structure the board to add value**	
2.1	Companies should have a nomination committee which: ▪ has at least 3 members, a majority of whom are independent directors; and ▪ is chaired by an independent director; and disclose: ▪ the charter of the committee; ▪ the members of the committee; and ▪ as at the end of each reporting period the number of times the committee met throughout the period and the individual attendances of the members at those meeting.	The Board has established a Remuneration and Nomination Committee and has adopted a formal Charter which can be accessed at www.winchesterenergyltd.com. The Remuneration and Nomination Committee is currently comprised of the Non-Executive Chairman (who is not independent) and two Non-Executive Directors (only one of whom is independent). These 3 Directors constitute the Remuneration and Nomination Committee. The Company Secretary acts as secretary to the committee and

PRINCIPLES AND RECOMMENDATIONS		COMMENT
		attends its meetings. Given the size and structure of the Company, there is only one independent Director on the Board, being James Hodges. For this reason the recommendation that the Remuneration and Nomination Committee have a majority of independent members has not been followed. During the period the Remuneration and Nomination Committee met once formally, with all members of the Committee in attendance.
2.2	Companies should disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve its membership.	The skills, experience and expertise relevant to the position held by each Director is disclosed in the Directors' Report.
2.3	Companies should disclose: ▪ the names of the directors considered by the board to be independent directors; ▪ if a director has an interest, position, association, or relationship affecting independent status but the board is of the opinion that it does not compromise the independence of the director, the nature of that interest position or association or relationship in question and an explanation of why the Board is of that opinion; and ▪ the length of service of each director.	The Board currently has only one independent Director and that is James Hodges. The date of appointment of each Director is set out in the Director's Report.
2.4	A majority of the board of a company should be independent directors.	Given the size and structure of the Company, the board currently has only one independent Director and that is James Hodges.
2.5	The chair should be an independent director and should not be the same person as the CEO of the company.	Given the size and structure of the company, the Chairman is not independent.
2.6	Companies should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skill and knowledge needed to perform their role as directors effectively.	The Company has adopted a program for inducting new directors and providing appropriate professional development opportunities.
3.	**Act ethically and responsibly**	
3.1	Companies should establish a code of conduct for its directors, senior executives and employees and disclose the code or a summary of the code.	The Company has adopted a Code of Conduct and Diversity Policy both of which can be accessed at www.winchesterenergyltd.com
4.	**Safeguard integrity in corporate reporting**	
4.1	The board should establish an audit committee which: ▪ has at least 3 members, all of whom are non-executive directors and a majority of whom are independent directors; and ▪ is chaired by an independent director, who is not the chair of the board,	The Company has established an Audit and Risk Committee which consists of three members. The Committee currently has a Non-Executive Chairman (but who is not independent) along with two Non-Executive Directors (of whom only one is

PRINCIPLES AND RECOMMENDATIONS		COMMENT
	and disclose: ▪ the charter of the committee; ▪ the relevant qualifications and experience of the members of the committee; and ▪ in relation to each reporting period the number of times and committee met throughout the period and the individual attendances of the members at those meeting.	independent). These 3 Directors constitute the Audit and Risk Committee. The Company Secretary acts as secretary to the committee and attends its meetings. The qualification and experience of the committee members are set out in the Directors' Report. The formal charter of the Committee can be accessed at www.winchesterenergyltd.com. Given the size and structure of the Company, there is only one independent Director on the board, being James Hodges. For this reason the recommendation that the Audit and Risk Committee have a majority of independent members has not been followed. During the period the Audit and Risk Committee met once formally, with all members in attendance.
4.2	The board of a company should, before it, approves the company's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the company and the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	The Board has adopted the policy that before it approves the Company's financial statements for a financial period it will receive from its CEO and CFO (or the persons performing those functions) a declaration that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company.
4.3	Companies that have an AGM should ensure that its external auditor attends its AGM and is available to answer question from shareholders relevant to the audit.	The Board has adopted the policy that it will request the Company's auditor to attend the Company's AGM.
5.	**Make timely and balanced disclosure**	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and disclose that policy or a summary of it.	The Company has adopted a Continuous Disclosure Policy which can be accessed at www.winchesterenergyltd.com.
6.	**Respect the rights of security holders**	
6.1	Companies should provide information about itself and its governance to investors via its website.	Information on the Company can be accessed at www.winchesterenergyltd.com.
6.2	Companies should design and implement an investor relations program to facilitate effective two way communications with investors.	The Company has adopted a Shareholder Communications Policy which can be accessed at www.winchesterenergyltd.com.
6.3	Companies should disclose the policies and processes it	The Company has adopted a Shareholder

PRINCIPLES AND RECOMMENDATIONS		COMMENT
	has in place to facilitate and encourage participation at meetings of shareholders.	Communications Policy which can be accessed at www.winchesterenergyltd.com.
6.4	Companies should give shareholders the option to receive communications from, and send communications to, the company and its share registry electronically.	The Company has adopted a Shareholder Communications Policy which can be accessed at www.winchesterenergyltd.com.
7.	**Recognise and manage risk**	
7.1	Companies should have a committee or committees to oversee risk, each of which: ▪ has at least 3 members, a majority of whom are independent directors; and ▪ is chaired by an independent director, and disclose: ▪ the charter of the committee; ▪ the members of the committee; and ▪ as at the end of each reporting period, the number of times and committee met throughout the period and the individual attendances of the members at those meeting.	The Company has adopted an Audit and Risk Committee Charter which can be accessed at www.winchesterenergyltd.com. This charter outlines the key duties of the Audit and Risk Committee in relation to the Company's risk management practices. The Company has established an Audit and Risk Committee which consists of three members. The Committee currently has a Non-Executive Chairman (but who is not independent) along with two Non-Executive Directors (of whom only one is independent). These 3 Directors constitute the Audit and Risk Committee. The Company Secretary acts as secretary to the committee and attends its meetings. Given the size and structure of the Company, there is only one independent Director of the Board, being James Hodges. For this reason the recommendation that the Audit and Risk Committee have a majority of independent members has not been followed. During the period the Audit and Risk Committee met once formally, with all members in attendance.
7.2	The board or a committee of the board should review the company's risk management framework at least annually to satisfy itself that it continues to be sound and disclose in relation to each reporting period, whether such a review has taken place.	The Board receives assurance in the form of a declaration, from the Managing Director and Chief Financial Officer (equivalent) as required by the Corporations Act. A review of the Company's risk management framework was conducted near the end of the 2015 reporting period and was deemed to be sound.
7.3	Companies should disclose if it has an internal audit function, how the function is structured and what role it performed, or if it does not have an internal audit function, that fact, and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	The Company due to its size does not have an internal audit department. However, pursuant to the Audit and Risk Committee Charter, the Audit and Risk Committee has been allocated the task of overseeing internal (and external) audit functions, monitoring internal control process and

PRINCIPLES AND RECOMMENDATIONS		COMMENT
		reviewing risk management processes.
7.4	Companies should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.	The risks the Company faces are set out in Section 9 of the Company's Prospectus dated 8 August 2014.
8.	**Remunerate fairly and responsibly**	
8.1	The board should establish a remuneration committee which: ▪ has at least 3 members, a majority of whom are independent directors; and ▪ is chaired by an independent director; and disclose: ▪ the charter of the committee; ▪ the members of the committee; and ▪ as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members of those meetings.	The Company has established a Remuneration and Nomination Committee under a formal charter (which can be accessed at www.winchesterenergyltd.com), which consists of three members. The Committee currently has a Non-Executive Chairman (but who is not independent) along with two Non-Executive Directors (of whom only one is independent). These 3 Directors constitute the Remuneration and Nomination Committee. The Company Secretary acts as secretary to the committee and attends its meetings. Given the size and structure of the Company, there is only one independent Director of the Board, being James Hodges. For this reason the recommendation that the Remuneration and Nomination Committee have a majority of independent members has not been followed. During the period the Remuneration and Nomination Committee met once formally, with all members of the committee in attendance.
8.2	Companies should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	The structure of Non-Executive Directors' remuneration is clearly distinguished from that of Executive Directors and senior executives and is described in the Directors' Report. The remuneration of Executive Directors and senior executives is monitored by the Remuneration and Nomination Committee, in accordance with the charter for that committee (which can be accessed at www.winchesterenergyltd.com).
8.3	Companies with an equity based remuneration scheme should: ▪ have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and ▪ disclose that policy or a summary of it.	The Company has yet to adopt any equity based remuneration scheme. When it does the details of the scheme will be disclosed to Shareholders.