



**WINCHESTER**

**ENERGY LIMITED**

ACN 168 586 445

# **ANNUAL FINANCIAL REPORT**

**For the year ended 31 December 2017**

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## CORPORATE INFORMATION

### Directors

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

### Company Secretary

Mr Lloyd Flint

### Registered Office

Level 3, 18 Richardson Street  
West Perth WA 6005 Australia

Telephone: +61 1300 133 921

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Email: [admin@winchesterenergy.com](mailto:admin@winchesterenergy.com)

Website: [www.winchesterenergy.com](http://www.winchesterenergy.com)

### Principal place of business

Level 3, 18 Richardson Street  
West Perth WA 6005 Australia

### USA Office

17<sup>th</sup> Floor, Two Riverway, Suite 1700  
Houston, Texas USA 77056

### Share register

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

Telephone: +61 8 9324 2099

Facsimile: +61 2 8583 3040

### Auditors

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



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ACN 168 586 445

## CHAIRMAN'S LETTER

Dear Shareholder

On behalf of the Board of Winchester Energy Limited (**Winchester** or **Company**), I am pleased to present the Company's annual financial report for the period ended 31 December 2017.

Your Company is an active oil producer and development drilling company in the eastern part of the prolific oil producing Permian Basin, Texas. It has a significant leasehold position of 17,402 net acres. Winchester has had an active year during calendar 2017 with its program of development drilling and completion for oil production. This activity has taken place against a background of oil production with 56,865 barrels of oil sold to market.

Key milestone events took place in calendar 2017 for the Company, which the Company is of the firm belief, will impact positively on the future growth and success of the Company. These events were Winchester taking over the operatorship of the major portion of its leasehold, the successful drilling of short radius horizontals in the primary target, the Ellenburger Formation and the completion of the first well proving up the significant oil production potential of the known shallow oil zones overlying the Ellenburger Formation.

Your Company looks forward to the results of the planned calendar 2018 activity which include the successful production testing of further horizontal wells in the Ellenburger Formation to prove that horizontal wells can significantly increase production, now that the ability to drill horizontal wells has been proved. Additionally a program of completion for oil production of several shallow oil zones present in almost all existing wells drilled to date in which Winchester has an interest. The anticipated success of these planned activities will build the Company's oil production and cash flow.

Horizontal drilling and fracking by US Energy will also take place during 2018 to test the Permian Shale unconventional oil resource potential in acreage immediately adjacent to your Company's leasehold, at no cost to your Company. The Permian Shale is a major unconventional oil producer to the west of your Company's leases, targeted by the oil majors active in the Permian Basin. The presence of the Permian Shale in your Company's leasehold provides further validation of the Company's decision to acquire during the previous low oil price environment, a large leasehold position in the prolific Permian Basin with its multiple oil producing zones.

To quote the Company's Managing Director, Mr. Neville Henry, *"In the current oil price environment, the Company maintains a dominant acreage position incorporating several proven oil producing zones in the East Permian Basin of Texas. This bodes well for the future of the Company."*

I thank you for your support of Winchester Energy and look forward to the coming year and to further drilling and production success for our Company.

Yours sincerely

**Mr John Kopcheff (B Sc. Geology & Geophysics (Honours) University of Adelaide.) Member AIMM.**

**Non-Executive Chairman**

**28 March 2018**



## REVIEW OF OPERATIONS

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



Location of the Company's 17,402 net acres in Nolan County, Texas

### Oil and Gas Leases

As at 31 December 2017 Winchester controlled 17,402 net acres incorporated within six leases in the highly productive Eastern Shelf of the Permian Basin in Texas, USA.

|                               | % Interest | Lease           | Location           |
|-------------------------------|------------|-----------------|--------------------|
| <b>Held at end of quarter</b> |            |                 |                    |
|                               | 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  |

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In a transaction completed in late 2017, in exchange for receiving operatorship of the Thomas 119-1H well, an 87.5%WI in the 2 ultra-short radius laterals to be drilled into the Ellenburger Formation in Thomas-119 and US\$175,000 cash, Winchester sold 1,808 net acres to US Energy Corporation of America Inc. (USEC) from its Thomas, Bridgford, Arledge and McLeod lease holdings. The White Hat ranch oil and gas lease was not involved in this transaction between Winchester and USEC.

Under the transaction with USEC, Winchester's net acreage has dropped by 1,808 net acres. Winchester's net acreage has therefore dropped from 19,210 net acres to 17,402 net acres.

**Oil Production**

The total oil production (across all oil wells in which WEL has a working interest) for the year ended 31 December 2017 is as follows:

|                                    | Gross Oil Production* (bo) | Net Oil Production to Winchester (bo) (Net 50%WI)* |
|------------------------------------|----------------------------|--|
| 2017 Oil Production (Gross 100%WI) | 113,156                    | 56,578   |
| 2017 Oil Sales (Gross 100%WI)      | 113,731                    | 56,865   |

\* Please note that all oil and gas production from the White Hat ranch oil and gas 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 for oil production only (and exclude gas sales) and are pre-royalty.

The following table outlines the quarter on quarter oil production from the Company from the December 2017 quarter.

| Gross Oil Production (bo)*   | December Quarter 2017 | September Quarter 2017 | June Quarter 2017 | March Quarter 2017 | December Quarter 2016 |
|--|-----------------------|------------------------|-------------------|--------------------|-----------------------|
| Oil Production (Gross 100%WI)  | 17,164                | 27,806                 | 39,533            | 28,633             | 37,876                |
| Oil Sales (Gross 100%WI)   | 18,022                | 27,409                 | 39,833            | 28,467             | 37,642                |
| <b>Net Oil Production to Winchester (bo) (50% Working Interest)*</b> |                       |                        |                   |                    |                       |
| Quarterly Oil Production (Net)                                       | 8,582                 | 13,903                 | 19,766            | 14,316             | 18,938                |
| Quarterly Oil Sales (Net)  | 9,011                 | 13,704                 | 19,916            | 14,233             | 18,821                |

\* Please note that all oil and gas production from the White Hat ranch oil and gas 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 for oil production only (and exclude gas sales) and are pre-royalty.

**Oil and Gas Exploration Activities**

On 1 March 2017 the 50%:50% WI arrangement with Carl E Gungoll Exploration LLC (CEGX) 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 has been operator of the White Hat ranch lease outside of the previously drilled 40 acre drilling units.

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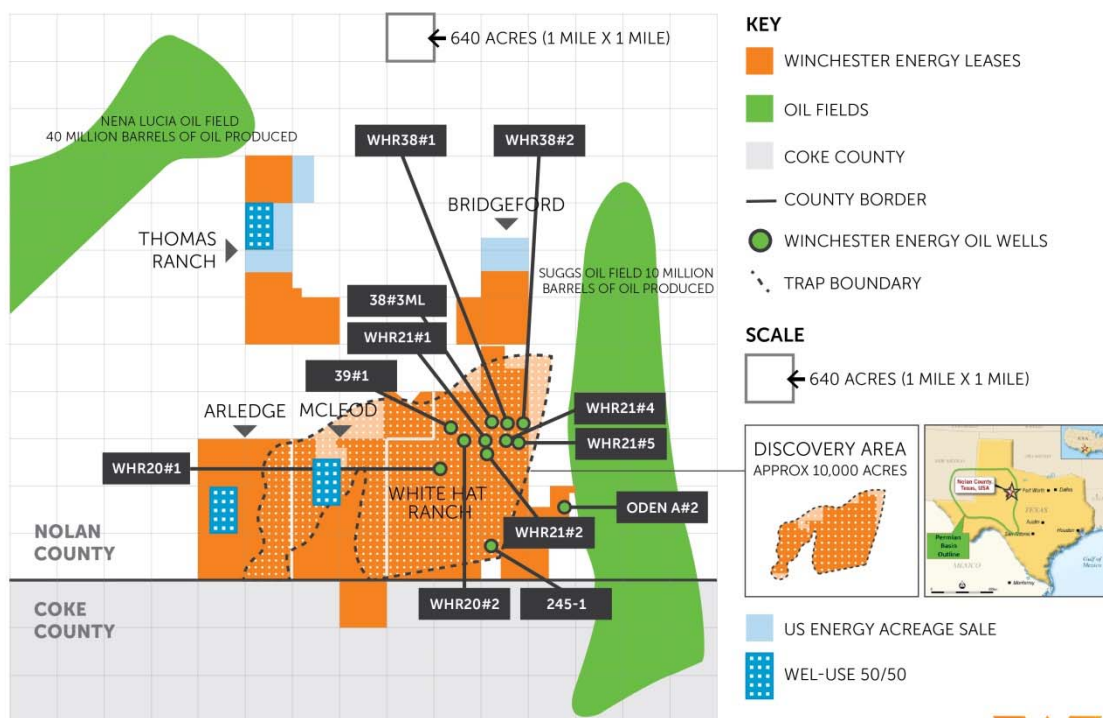
This is a significant development for the Company as revenue per well drilled after 1 March 2017 increased by 25% and, as operator, Winchester's technical team has been able to apply new drilling and completion techniques in its exploration and development of the Ellenburger Formation as well as other stacked pay targets (such as the recent successful completion in a sand unit in the Strawn Formation in the White Hat 20#2 well).

The Permian Basin in Texas is an attractive environment in which to develop energy assets, with the average cost per vertical well targeting the Ellenburger Formation (including completion) approximately US\$890,000. This cost will reduce should the Company choose to target shallower oil bearing formations such as the Strawn Formation.

Calendar year 2017 was another very active year for Winchester which saw the company operate and successfully complete three ultra-short radius horizontal laterals totaling an aggregate of 1,679 feet from the one vertical well bore - White Hat 38#3ML. These three laterals contained a total of 430 feet in aggregate oil and gas shows and initially free-flowed oil to the surface however after pumping, oil production reduced to under 10 bopd with two of the lateral wells intersecting a large fracture oil reservoir system that was pressure depleted as a result of oil production from the adjacent White Hat Field. In view of the low production levels from the White Hat 38#3ML well, Winchester has decided to abandon the multi-lateral deeper legs and target a new completion with fracture stimulation in the overlying Fry/Strawn interval similar to that undertaken at White Hat 20#2.

On 19 April 2017 the Company reported that oil was being produced on pump at a rate of 200 barrels of oil per day (bopd) from a sand unit within the Strawn Formation in the White Hat 20#2 well which is being operated by CEGX. White Hat 20#2 represents a significant new oil discovery in the very first test of this sand unit of the Strawn Formation by Winchester and CEGX in the White Hat oil lease. Importantly, this significant oil production rate (200 bopd) has resulted from straightforward, low cost, small scale fracking of a 30 foot vertical interval.

Winchester also drilled vertical well White Hat 39#1 to 7,000 feet total depth in September 2017. The well contained 21 feet of potential net oil pay across the Ellenburger Formation and 55 feet of potential oil pay from the overlying oil-bearing sand units, including the Strawn interval. In 2018 Winchester is likely to drill a horizontal lateral from this vertical well bore targeting the Ellenburger Formation.



### White Hat Multi-Lateral Well 38#3ML (60% WI)

During the year the Company successfully drilled three horizontal lateral legs in White Hat well 38#3ML for a cumulative 1,679 feet, with 430 feet of oil and gas shows. The first leg flowed oil and gas to the surface for several hours after drilling into a fracture zone. Following the drilling of all three horizontal legs in December 2017, the well was tested using an Electrical Submersible Pump (ESP) followed by a conventional rod pump. The highest production rate recorded was 40 bopd, reducing to under 10 bopd. Following analysis of Ellenburger reservoir pressures in the White Hat 38#3 ML lateral well bores intersected a large fracture oil reservoir system that was pressure depleted as a result of oil production from the adjacent White Hat Field in which Winchester has a 50% interest.

In view of the low production levels from the White Hat 38#3ML well, Winchester has decided to abandon the multi-lateral deeper legs and target a new completion with fracture stimulation in the overlying Fry/Strawn interval. This gross interval of 170 feet between 5,900ft – 6,070ft has two sands with 25 feet of net pay calculated on well logs associated with strong oil and gas shows while drilling.

Winchester notes that within its acreage all of the Company's wells targeting the Ellenburger have encountered shallow zones with varying oil production potential in their own right. In April 2017, Winchester announced initial production rates of 200 bopd from the Fry/Strawn Formation in the adjacent White Hat 20#2 well. This well, which was fracture stimulated, continues after nearly a year of production to be an excellent producer at 60 bopd and has produced over 25,000 barrels. Winchester anticipates work to commence at White Hat 38#3ML in April 2018 depending on fracture stimulation crew availability.

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White Hat Well 20#2 (50% WI)

The White Hat 20#2 vertical well was spudded by the operator (CEGX) on 6 November 2015 to offset White Hat 21#1. Initial testing of the upper Ellenburger Formation in White Hat 20#2 yielded low rates of oil. Following this initial testing, the White Hat 20#2 well was fracked on 7 April 2016 in order to attempt to achieve greater oil production. However following fracking, the well produced oil at very low rates of 1-2 bopd. While drilling down to the Ellenburger Formation in White Hat 20#2 in November 2015, promising oil and gas shows were obtained in several zones above the Ellenburger Formation.

In April 2017, Winchester announced initial production rates of 200 bopd from the Fry/Strawn Formation in the White Hat 20#2 well. This well, which was fracture stimulated, continues after nearly a year of production to be an excellent producer with reservoir engineers Kurt Mire and Associates ascribing a proved producing (1P) Estimated Ultimate Recovery (EUR) of 70,000 bbls for this well.

White Hat Well 21#5 (50% WI)

On 5 March 2017 Winchester advised that the White Hat 21#5 well was placed on production by the Operator, CEGX, 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 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 - 40bopd. 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.

Oden A#2 and 245#1 Wells (25% and 50% WI Respectively)

Additional to the wells drilled with Winchester as operator over the 2017 calendar year, WEL also participated in the Oden A#2 well with operator Clear Fork Inc. and the 245#1 well operated by CEGX. Both wells targeted the Ellenburger Formation.

For the ten days of production ending 10 July 2017, Oden A#2 produced an average of 21 bopd and 91 bwpd. Given Winchester's 25% WI in the well the cost attributable to Winchester is estimated at USD \$170,000. Clear Fork is currently assessing the highly prospective sampling and log results returned from drilling through the overlying Strawn Formation with a view to determining the merits of re-completing vertical well Oden A#2 within the Strawn Formation in the near term.

After encountering oil and gas shows in the Ellenburger Formation, over the interval 6,830 – 6,900 feet in in 245#1, CEGX elected to run a Drill Stem Test (DST) that recovered 250 feet total fluid that included 75 feet free gas, 150 feet gas and oil / drilling mud (40% oil cut) and 25 feet of water. Analysis of the DST results indicated low permeability and CEGX decided not to complete the vertical well. CEGX has advised Winchester that it will suspend the well and assign all its rights in the well to Winchester. Drilling costs net to Winchester are US\$200,000.



### **Stacked Pay Opportunities**

There also exists within the White Hat ranch oil and gas lease several other shallower intervals with future development potential. This has become particularly significant given the production rate observed from a sand unit within the Strawn Formation in the White Hat 20#2 well. As well as other intervals within the Strawn Formation, other prospective units include the high total organic carbon intervals (Three Fingers Shale and Lower Penn Shale) within the Cline Shale Formation and several intervals within the Canyon Sands package. The Barnett equivalent shales overlying the Ellenburger have high organic material and are expected to become a potential unconventional resource within Winchester's acreage position. Several of these formations have already produced significant oil and gas from Nolan County and other areas within the Permian Basin.

The Company is currently conducting a detailed assessment of these intervals for production given oil shows during drilling across all eight wells operated by CEGX and Clear Fork. Winchester recognises the potential value these intervals represent and will look to evaluate and assess these zones in the future.

In a validation of the stacked pay potential within Winchester's acreage, US Energy Corporation of America is planning in the near future to test the Permian Basin Wolfcamp "D" Shale oil potential in several wells that they may re-enter to horizontally drill and fracture stimulate within or near Winchester's leases. These wells will provide at no cost to Winchester, an important evaluation of the potentially significant Permian Shale oil resource potential in Winchester's and its adjacent acreage.

The success of the horizontal lateral to be drilled in the Ellenburger of the White Hat 39 #1ML will be an important near term milestone for the Company.

### **Innovative Techniques**

The Ellenburger reservoir remains a significant focus for the Company. The oil-bearing nature of the Ellenburger Formation is confirmed and the Company's ability to drill and orient multiple horizontal lateral wells from a single well bore has been demonstrated. It is now simply a matter of determining the optimal commercial spacing of future development wells with horizontal laterals.

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.

The Company has established an area of 10,000 acres 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 continue to 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 sub-economic. Three wells exceeded 500,000 barrels of total oil production. The highest IP rate was 432bopd and the average IP of the top 6% of wells was 364bopd.

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.

The Ellenburger reservoir remains a significant focus for the Company. The oil-bearing nature of the Ellenburger Formation is confirmed and our ability to drill and orient multiple horizontal lateral wells from a single well bore has been demonstrated. It is now a matter of determining the optimal commercial spacing of future development wells with horizontal laterals.

#### **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.*



## DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 2017.

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

|                    |  |
|--------------------|--|
| Mr John Kopcheff   | Non-Executive Chairman – appointed 11 September 2017 |
| Mr Peter Allchurch | Non-Executive Director                               |
| Mr Neville Henry   | Managing Director                                    |
| Mr James Hodges    | Independent Non-Executive Director                   |
| Mr John D. Kenny   | Non-Executive Director                               |
| Mr Larry Liu       | Non-Executive Director                               |

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

### Information on Directors

#### Mr John Kopcheff Non-Executive Chairman

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

#### Current directorships held in other listed entities

Vivid Technology Limited.

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

None.

#### Mr Peter Allchurch Non-Executive Director

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

#### Current directorships held in other listed entities

None.

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

Platinum Australia Limited



## Mr Neville Henry Managing Director

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

### Current directorships held in other listed entities

None.

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

None.

## Mr James Hodges Independent Non-Executive Director

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 Flint BAcc, MBA, CAANZ. Appointed 27 October 2017. Mr Flint is an experienced professional gained over 25 years including periods as CFO and group Company Secretary for a number of listed ASX companies. Mr Flint provides financial and company secretarial services to a number of ASX listed companies.

## Directors' shareholdings

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

|                    | Shares     | Options   | Class A<br>Convertible<br>Milestone<br>notes | Class B<br>Convertible<br>Milestone<br>notes | Class C<br>Convertible<br>Milestone<br>notes |
|--------------------|------------|-----------|--|--|--|
| Mr John Kopcheff   | 3,787,632  | 578,512   | 41   | 82   | 123  |
| Mr Peter Allchurch | 15,348,744 | 4,576,828 | 1,981  | 3,962  | 5,943  |
| Mr Neville Henry   | 6,772,234  | 8,777,759 | 1,959  | 3,918  | 5,877  |
| Mr James Hodges    | 1,125,000  | 500,000   | -  | -  | -  |
| Mr John D. Kenny   | 14,908,774 | 6,016,828 | 1,666  | 3,332  | 4,998  |
| Mr Larry Liu       | 70,143,733 | 5,128,099 | 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 2017 after providing for income tax was US\$4,412,943 (2016 : US\$784,810). Net Assets of the entity as at 31 December 2017 were US\$20,452,162 (2016 : 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 2017.

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## Significant events subsequent to reporting date

There have been no significant events after the reporting 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 2017, no dividends have been paid or declared since 1 January 2017 (2016 : nil) and the Directors do not recommend the payment of a dividend in respect of the financial period.

## Indemnification and insurance of officers and auditors

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

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

## Shares under option

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

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



## Directors' meetings

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

|                    | Board of Directors |          | Audit & Risk committee |          | Remuneration committee |          |
|--------------------|--------------------|----------|------------------------|----------|------------------------|----------|
|                    | Held               | Attended | Held                   | Attended | Held                   | Attended |
| Mr John Kopcheff   | 2                  | 2        |                        |          |                        |          |
| Mr Peter Allchurch | 4                  | 3        |                        |          |                        |          |
| Mr Neville Henry   | 4                  | 4        |                        |          |                        |          |
| Mr James Hodges    | 4                  | 4        | 1                      | 1        | 1                      | 1        |
| Mr John D. Kenny   | 4                  | 4        | 1                      | 1        | 1                      | 1        |
| Mr Larry Liu       | 4                  | 3        |                        |          |                        |          |

## Diversity

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

## Auditor independence and non-audit services

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

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

## Auditor independence and non-audit services

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

|                          | 2017<br>US\$ | 2016<br>US\$ |
|--------------------------|--------------|--------------|
| Taxation advice          | 41,196       | 36,099       |
| Other non-audit services | 9,241        | 4,093        |
|                          | 50,437       | 40,192       |

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## 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.

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#### Directors

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|                    |                                    |                             |
|--------------------|------------------------------------|-----------------------------|
| Mr John Kopcheff   | Non-Executive Chairman             | Appointed 11 September 2017 |
| Mr Peter Allchurch | Non-Executive Director             | Appointed 17 March 2014     |
| Mr Neville Henry   | Managing Director                  | Appointed 17 March 2014     |
| Mr James Hodges    | Independent Non-Executive Director | Appointed 30 April 2014     |
| Mr John D. Kenny   | Non-Executive Director             | Appointed 17 March 2014     |
| Mr Larry Liu       | Non-Executive Director             | Appointed 10 December 2014  |

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### 2. Remuneration Policy

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

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

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

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



## Remuneration Report (Audited) (continued)

### 3. Summary of Senior Management contractual arrangements

The Company's KMP are employed under individual consulting agreements, which contain standard terms and conditions on notice and termination provisions, restraint and confidentiality provisions and leave entitlements.

Specific terms and conditions of service agreements of KMP at the end of the financial year are summarised in the table below:

| Name               | Position                           | Notice Period | Restraint of Trade |
|--------------------|------------------------------------|---------------|--------------------|
| Mr John Kopcheff   | Non-Executive Chairman             | n/a           | None               |
| Mr Neville Henry   | Managing Director                  | 3 months      | None               |
| Mr Peter Allchurch | Non-Executive Director             | 3 months      | None               |
| Mr 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 2017:

| Name               | Currency | Fees    |
|--------------------|----------|---------|
| Mr John Kopcheff   | AUD\$    | 48,000  |
| 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.

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WINCHESTER ENERGY LIMITED  
ACN 168 586 445

Remuneration Report (Audited)

5. Key management personnel remuneration

The remuneration for each Director and key management personnel of the Company receiving the highest remuneration during the year ended 31 December 2017 was as follows:

| 2017             | Short term benefits        |                |                       | Post-employment | Long term benefits |                      |                      |                |                     |
|------------------|----------------------------|----------------|-----------------------|-----------------|--------------------|----------------------|----------------------|----------------|---------------------|
|                  | Salary & fees <sup>1</sup> | Cash bonus     | Non-monetary benefits | Super-annuation | Long service leave | Share based payments | Termination payments | Total          | Performance related |
| <b>Directors</b> | US\$                       | US\$           | US\$                  | US\$            | US\$               | US\$                 | US\$                 | US\$           | %                   |
| J. Kopcheff      | 2017                       | 7,377          | -                     | -               | 701                | -                    | -                    | 8,078          | 0%                  |
|                  | 2016                       | -              | -                     | -               | -                  | -                    | -                    | -              | 0%                  |
| P. Allchurch     | 2017                       | 50,155         | -                     | -               | -                  | 17,254               | -                    | 67,409         | 26%                 |
|                  | 2016                       | 58,052         | -                     | -               | -                  | -                    | -                    | 58,052         | 0%                  |
| N. Henry         | 2017                       | 261,000        | -                     | 20,952          | -                  | -                    | 172,543              | 454,495        | 38%                 |
|                  | 2016                       | 252,000        | -                     | -               | -                  | -                    | -                    | 252,000        | 0%                  |
| J. Hodges        | 2017                       | 26,000         | -                     | -               | -                  | -                    | 17,254               | 43,254         | 40%                 |
|                  | 2016                       | 31,320         | -                     | -               | -                  | -                    | -                    | 31,320         | 0%                  |
| J. D. Kenny      | 2017                       | 59,818         | -                     | -               | -                  | -                    | 86,272               | 146,090        | 59%                 |
|                  | 2016                       | 58,052         | -                     | -               | -                  | -                    | -                    | 58,052         | 0%                  |
| Larry Liu        | 2017                       | 27,608         | -                     | -               | -                  | -                    | 17,254               | 44,862         | 38%                 |
|                  | 2016                       | 26,793         | -                     | -               | -                  | -                    | -                    | 26,793         | 0%                  |
| <b>Total</b>     | <b>2017</b>                | <b>431,958</b> | -                     | <b>20,952</b>   | <b>701</b>         | -                    | <b>310,578</b>       | <b>764,189</b> | <b>41%</b>          |
| Total            | 2016                       | 426,217        | -                     | -               | -                  | -                    | -                    | 426,217        | 0%                  |

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

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## 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 2017.

| 2017               | Balance at<br>1 January<br>No. | Granted as<br>Compensation<br>No. | Net<br>other change<br>No. | Balance at 31<br>December<br>No. |
|--------------------|--------------------------------|-----------------------------------|----------------------------|----------------------------------|
| Mr John Kopcheff   | -                              | -                                 | 3,687,632 <sup>1</sup>     | 3,687,632                        |
| Mr Peter Allchurch | 12,278,994                     | -                                 | 3,069,750                  | 15,348,744                       |
| Mr Neville Henry   | 5,321,787                      | -                                 | 1,450,447                  | 6,772,234                        |
| Mr James Hodges    | 900,000                        | -                                 | 225,000                    | 1,125,000                        |
| Mr John D. Kenny   | 11,718,994                     | -                                 | 3,189,750                  | 14,908,744                       |
| Mr Larry Liu       | 56,114,986                     | -                                 | 14,028,747                 | 70,143,733                       |

<sup>1</sup> 3,487,632 shares on appointment (11/9/17) and 200,000 shares acquired on market during the year.

| 2016               | Balance at<br>incorporation<br>No. | Granted as<br>Compensation<br>No. | Net<br>other change<br>No. | Balance at 31<br>December<br>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                       |

#### 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 2017.

| 2017               | Balance at<br>1 January<br>No. | Granted as<br>Compensation<br>No. | Net<br>other change<br>No. | Balance at<br>31 December<br>No. |
|--------------------|--------------------------------|-----------------------------------|----------------------------|----------------------------------|
| Mr John Kopcheff   | -                              | -                                 | 578,512 <sup>1</sup>       | 578,512                          |
| Mr Peter Allchurch | 4,076,828                      | 500,000                           | -                          | 4,576,828                        |
| Mr Neville Henry   | 3,777,759                      | 5,000,000                         | -                          | 8,777,759                        |
| Mr James Hodges    | -                              | 500,000                           | -                          | 500,000                          |
| Mr John D. Kenny   | 3,516,828                      | 2,500,000                         | -                          | 6,016,828                        |
| Mr Larry Liu       | 4,628,099                      | 500,000                           | -                          | 5,128,099                        |

<sup>1</sup> 578,512 options on appointment (11/9/17).



## Remuneration Report (Audited) (continued)

### 6. Additional statutory disclosures

#### Key management personnel option holdings

| 2016               | Balance at incorporation<br>No. | Granted as Compensation<br>No. | Net other change<br>No. | Balance at 31 December<br>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       | 4,628,099                       | -                              | -                       | 4,628,099                     |

#### Share based payment

There were no share based payment arrangements in the form of ordinary shares affecting remuneration of key management personal in the current financial year. There were 9.0m options over shares issued to key management per the table above that were approved in general meeting of the shareholders on 12 April 2017. The terms of the options were as follows and valued using the Black and Scholes methodology:

|   | KMP options (AUD) <sup>1</sup> |
|---|--------------------------------|
| Valuation date (equal to grant date under AASB 2) | 12 April 2017                  |
| Exercise price                                    | 12 cents                       |
| Expiration date                                   | 31 January 2022                |
| Share price at valuation date                     | \$0.080                        |
| Risk free rate of interest                        | 2.04% p.a.                     |
| Company share price volatility                    | 80% p.a.                       |
| Fair value  | \$0.045                        |

<sup>1</sup> These options vested on grant and were therefore expensed in full during the period.

#### Loans to key management personnel

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

#### Voting at the Annual General Meeting

At the Annual General Meeting held on 23 May 2017, 94% of proxy votes cast voted in favour of the 2016 remuneration report.

#### End of audited remuneration report

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

## Corporate Governance Statement

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

On behalf of the Directors

Mr John Kopcheff  
Non-Executive Chairman  
28 March 2018



## DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;
- (c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company; and
- (d) the Directors have been given the declarations required by s.295A of the Corporations Act.

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

On behalf of the Directors

**Mr John Kopcheff**  
**Non-Executive Chairman**  
28 March 2018

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

As lead auditor of Winchester Energy Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 28 March 2018

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

|  | Note | 2017<br>US\$       | 2016<br>US\$     |
|--|------|--------------------|------------------|
| Revenue  |      | 2,166,987          | 2,056,201        |
| Interest income  |      | 14,718             | 55,569           |
| Other income   |      | 36,075             | -                |
| Foreign exchange loss  |      | (97,681)           | (46,191)         |
| Operating costs  |      | (459,910)          | (302,872)        |
| Impairment expense   | 14   | (1,695,062)        | -                |
| Depletion Expense  |      | (2,375,518)        | (1,172,187)      |
| Administration expenses  |      | (1,428,713)        | (1,255,500)      |
| Share-based payment expense  | 18   | (514,379)          | -                |
| Finance costs  |      | (3,061)            | (2,717)          |
| Other expenses   |      | (56,398)           | (117,113)        |
| <b>Loss before income tax</b>  | 6    | <b>(4,412,943)</b> | <b>(784,810)</b> |
| Income tax benefit   | 7    | -                  | -                |
| <b>Loss for the year after income tax</b>                            |      | <b>(4,412,943)</b> | <b>(784,810)</b> |
| <b>Other comprehensive loss, net of income tax</b>                   |      |                    |                  |
| <i>Items that may be reclassified subsequently to profit or loss</i> |      |                    |                  |
| Exchange differences on translation of foreign operations            | 19   | 283,844            | 60,189           |
| <b>Total comprehensive loss for the year</b>                         |      | <b>(4,129,099)</b> | <b>(724,621)</b> |
| Loss per share for the year  |      | Cents              | Cents            |
| <b>Basic loss per share (cents per share)</b>                        | 9    | <b>(1.89)</b>      | <b>(0.36)</b>    |
| <b>Diluted loss per share (cents per share)</b>                      | 9    | <b>(1.89)</b>      | <b>(0.36)</b>    |

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\$).

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

|  | Note | 2017<br>US\$      | 2016<br>US\$      |
|--|------|-------------------|-------------------|
| <b>ASSETS</b>                          |      |                   |                   |
| <b>Current assets</b>                  |      |                   |                   |
| Cash and cash equivalents              | 10   | 2,794,081         | 2,440,550         |
| Trade and other receivables            | 11   | 850,178           | 549,755           |
| <b>Total current assets</b>            |      | <b>3,644,259</b>  | <b>2,990,305</b>  |
| <b>Non-current assets</b>              |      |                   |                   |
| Property, plant and equipment          | 12   | 19,090            | 8,985             |
| Exploration and evaluation expenditure | 13   | 16,948,844        | 15,002,839        |
| Oil & Gas properties                   | 14   | 1,330,784         | 1,751,126         |
| <b>Total non-current assets</b>        |      | <b>18,298,718</b> | <b>16,762,950</b> |
| <b>TOTAL ASSETS</b>                    |      | <b>21,942,977</b> | <b>19,753,255</b> |
| <b>LIABILITIES</b>                     |      |                   |                   |
| <b>Current liabilities</b>             |      |                   |                   |
| Trade and other payables               | 15   | 1,486,603         | 435,285           |
| <b>Total current liabilities</b>       |      | <b>1,486,603</b>  | <b>435,285</b>    |
| <b>Non-current liabilities</b>         |      |                   |                   |
| Borrowings                             | 16   | 4,212             | 3,907             |
| <b>Total non-current liabilities</b>   |      | <b>4,212</b>      | <b>3,907</b>      |
| <b>TOTAL LIABILITIES</b>               |      | <b>1,490,815</b>  | <b>439,192</b>    |
| <b>NET ASSETS</b>                      |      | <b>20,452,162</b> | <b>19,314,063</b> |
| <b>EQUITY</b>                          |      |                   |                   |
| Issued capital                         | 17   | 28,937,201        | 24,172,873        |
| Option reserve                         | 18   | 1,891,620         | 1,891,620         |
| Share based payments                   | 18   | 502,869           | -                 |
| Foreign currency translation reserve   | 19   | (2,887,079)       | (3,170,924)       |
| Accumulated losses                     | 20   | (7,992,449)       | (3,579,506)       |
| <b>TOTAL EQUITY</b>                    |      | <b>20,452,162</b> | <b>19,314,063</b> |

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

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

|   | Ordinary<br>Shares | Accumulate<br>d losses | Option<br>Premium<br>reserve | Share<br>based<br>payment<br>reserve | Foreign<br>Currency<br>Translation<br>Reserve | Total              |
|---|--------------------|------------------------|------------------------------|--------------------------------------|---|--------------------|
|   | US\$               | US\$                   | US\$                         |                                      | US\$  | US\$               |
| <b>Balance at 1 January 2016</b>                            | <b>24,172,873</b>  | <b>(2,794,696)</b>     | <b>1,891,620</b>             | <b>-</b>                             | <b>(3,231,113)</b>                            | <b>20,038,684</b>  |
| Loss for the period   | -                  | (784,810)              | -                            | -                                    | -   | (784,810)          |
| Other comprehensive loss, net of tax                        | -                  | -                      | -                            | -                                    | 60,189  | 60,189             |
| <b>Total comprehensive loss for the year</b>                | <b>-</b>           | <b>(784,810)</b>       | <b>-</b>                     | <b>-</b>                             | <b>60,189</b>                                 | <b>(724,621)</b>   |
| <i>Transactions with owners in their capacity as owners</i> |                    |                        |                              |                                      |   |                    |
| Share based payment transactions                            | -                  | -                      | -                            | -                                    | -   | -                  |
| Issue of share capital (net of costs)                       | -                  | -                      | -                            | -                                    | -   | -                  |
| <b>Balance at 31 December 2016</b>                          | <b>24,172,873</b>  | <b>(3,579,506)</b>     | <b>1,891,620</b>             | <b>-</b>                             | <b>(3,170,924)</b>                            | <b>19,314,063</b>  |
| Loss for the year   | -                  | (4,412,943)            | -                            | -                                    | -   | (4,412,943)        |
| Other comprehensive income, net of tax                      | -                  | -                      | -                            | -                                    | 283,844                                       | 283,844            |
| <b>Total comprehensive loss for the year</b>                | <b>-</b>           | <b>(4,412,943)</b>     | <b>-</b>                     | <b>-</b>                             | <b>283,844</b>                                | <b>(4,129,099)</b> |
| <i>Transactions with owners in their capacity as owners</i> |                    |                        |                              |                                      |   |                    |
| Share based payment transactions                            | -                  | -                      | -                            | 502,869                              | -   | 502,869            |
| Issue of share capital (net of costs)                       | 4,764,328          | -                      | -                            | -                                    | -   | 4,764,328          |
| <b>Balance at 31 December 2017</b>                          | <b>28,937,201</b>  | <b>(7,992,449)</b>     | <b>1,891,620</b>             | <b>502,869</b>                       | <b>(2,887,079)</b>                            | <b>20,452,162</b>  |

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 2017

|   | Note      | 2017<br>US\$     | 2016<br>US\$     |
|---|-----------|------------------|------------------|
| <b>Cash flows from operating activities</b>                                   |           |                  |                  |
| Receipts from customers (inclusive of GST)                                    |           | 1,920,898        | 1,669,181        |
| Payments to suppliers and employees (inclusive of GST)                        |           | (915,025)        | (1,342,347)      |
| Interest paid   |           | -                | (2,717)          |
| Net cash generated/(used in) by operating activities                          | 10(a)     | 1,005,873        | 324,117          |
| <b>Cash flows from investing activities</b>                                   |           |                  |                  |
| Payment for exploration activities  |           | (5,596,242)      | (3,555,276)      |
| Interest received   |           | 14,718           | 55,569           |
| Payment for term deposits   |           | -                | (34,310)         |
| Purchase of property, plant, equipment and software                           |           | (9,404)          | (7,564)          |
| Net cash used in investing activities   |           | (5,590,928)      | (3,541,581)      |
| <b>Cash flows from financing activities</b>                                   |           |                  |                  |
| Proceeds from issue of shares and options                                     |           | 5,024,259        | -                |
| Costs associated with issue of securities                                     |           | (259,931)        | -                |
| Proceeds from borrowings  |           | -                | -                |
| Repayment of borrowings   |           | -                | -                |
| Net cash generated by financing activities                                    |           | 4,764,328        | -                |
| Net decrease in cash and cash equivalents                                     |           | 179,273          | (3,217,464)      |
| Cash and cash equivalents at beginning of the period                          |           | 2,440,550        | 5,641,407        |
| Effect of exchange rate changes on balance of cash held in foreign currencies |           | 174,258          | 16,607           |
| <b>Cash and cash equivalents at the end of the year</b>                       | <b>10</b> | <b>2,794,081</b> | <b>2,440,550</b> |

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

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# NOTES TO FINANCIAL STATEMENTS

## For the year ended 31 December 2017

### 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 2017 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 2017.

### 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 28 March 2018.

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

#### Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

At 31 December 2017, the Group had a cash and cash equivalent balance of \$2,794,081, had net working capital of \$2,157,656 (2016: \$2,555,020) and incurred a net operating loss of \$4,412,943 (2016: \$784,810).

The ability of the Group to continue as a going concern is dependent on the Group securing additional funding through the issue of equity, the raising of debt, joint venturing assets or the sale of assets as and when the need to raise working capital arises to continue to fund its planned operational activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has prepared a cash flow forecast for a period of 12 months beyond the sign off date of this financial report and believes there are sufficient funds to meet the Group's working capital requirements and as at the date of this report.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

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

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

# NOTES TO FINANCIAL STATEMENTS

## For the year ended 31 December 2017

### 2. Summary of Significant Accounting Policies (continued)

#### Functional and presentation currency

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

#### b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Winchester Energy Limited (the "Company" or "parent entity") as at 31 December 2017 and the results of all subsidiaries for the year ended. Winchester Energy Limited and its subsidiaries together are referred to in this financial report as the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

#### c) Foreign currency translation

##### *Functional and presentational currency*

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

##### *Transactions and balances*

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

##### *Group companies*

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

#### d) Application of new and revised Accounting Standards

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

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

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

# NOTES TO FINANCIAL STATEMENTS

## For the year ended 31 December 2017

### 2. Summary of Significant Accounting Policies (continued)

#### AASB 9: Financial Instruments

AASB 9 includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. The new standard also introduces expanded disclosure requirements and changes in presentation. The Group has yet to undertake a detailed impact assessment, however does not expect the new guidance to have a material impact for the Group. This standard is not applicable until the financial year commencing 1 January 2018.

#### AASB 16: Leases

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

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

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

#### AASB 15: Revenue from Contracts with Customers

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The Group has yet to undertake a detailed impact assessment, however does not expect the new guidance to have a material impact for the Group. This standard is not applicable until the financial year commencing 1 January 2018.

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

#### e) Income Tax

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

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

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

# NOTES TO FINANCIAL STATEMENTS

## For the year ended 31 December 2017

### 2. Summary of Significant Accounting Policies (continued)

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 2017

### 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 2017

#### 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. For producing assets, the estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are 1P hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Under a fair value less costs to sell calculation, future cash flows are based on estimates of 1P hydrocarbon reserves. Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually.

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

##### 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          |

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## NOTES TO FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### 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*

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

# NOTES TO FINANCIAL STATEMENTS

## For the year ended 31 December 2017

### 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.

#### iv. Share-based Payments

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

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

### 4. Financial Risk Management

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

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

## NOTES TO FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### 4. Financial Risk Management (Continued)

##### Categories of Financial Instruments:

|                              | 2017<br>US\$     | 2016<br>US\$     |
|------------------------------|------------------|------------------|
| <b>Financial Assets</b>      |                  |                  |
| Cash and cash equivalents    | 2,794,081        | 2,440,550        |
| Trade and other receivables  | 850,178          | 549,755          |
|                              | <u>3,644,258</u> | <u>2,990,305</u> |
| <b>Financial Liabilities</b> |                  |                  |
| Trade and other payables     | 1,486,602        | 435,285          |
| Borrowings                   | 4,212            | 3,907            |
|                              | <u>1,490,814</u> | <u>439,192</u>   |

##### (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:

|                              | 2017                     |                  | 2016                     |                  |
|------------------------------|--------------------------|------------------|--------------------------|------------------|
|                              | Average<br>interest rate | Balance<br>US\$  | Average<br>interest rate | Balance<br>US\$  |
| <b>Financial assets</b>      |                          |                  |                          |                  |
| Cash and cash equivalents    | 0.6%                     | 2,794,081        | 0.5%                     | 2,440,550        |
| Term deposit                 | 2.4%                     | 72,058           | 2.8%                     | 69,325           |
| <b>Financial liabilities</b> |                          |                  |                          |                  |
| Borrowings                   | -                        | (4,212)          | -                        | (3,907)          |
|                              |                          | <u>2,789,869</u> |                          | <u>2,505,968</u> |

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 2017, 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 \$27,899 lower/higher (2016: \$25,060 lower/higher).

## NOTES TO FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### 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.

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

| 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       |

##### (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 2017

#### 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 Note 16, 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:

|                                  | 2017<br>US\$ | 2016<br>US\$ |
|----------------------------------|--------------|--------------|
| Cash and cash equivalents        | 2,794,081    | 2,440,550    |
| Less Debt                        | (4,212)      | (3,907)      |
| Net cash/(debt)                  | 2,789,869    | 2,436,643    |
| Net debt plus equity             | 22,487,251   | 19,317,970   |
| Net cash to net debt plus equity | 12%          | 12%          |

#### 5. Segment information

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

The Company believes that the aggregation of the market sectors for segment reporting purposes is appropriate. Accordingly, all market sectors have been aggregated to form one reportable segment. The Company's corporate administration function has been in Australia and the Company's operations are in the USA. For the purposes of this disclosure, the operations carried out are in respect of the acquisition and drilling program of the Company's oil and gas leases of which US\$16,948,844 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\$) |            |
|--------------------------|---------------------|---------|-----------------------|------------|
|                          | 2017                | 2016    | 2017                  | 2016       |
| Australia                | 1,337,933           | 612,226 | 2,265,325             | 2,267,720  |
| USA                      | 3,075,010           | 172,584 | 19,677,651            | 17,485,535 |
| Total                    | 4,412,943           | 784,810 | 21,942,977            | 19,753,255 |

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 2017

#### 6. Loss before income tax

| Loss before tax is arrived after charging following expenses | 2017<br>US\$ | 2016<br>US\$ |
|--|--------------|--------------|
| Consultancy fees – technical and corporate                   | 506,847      | 473,140      |
| Legal Fees   | 13,247       | 19,714       |
| Rent and lease expense                                       | 298,758      | 323,700      |

#### 7. Income taxes

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

The major components of income tax expense are:

|  | 2017<br>US\$ | 2016<br>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:

|   | 2017<br>US\$ | 2016<br>US\$ |
|---|--------------|--------------|
| Accounting loss before income tax   | 4,412,943    | (784,810)    |
| Income tax benefit calculated at rate of 27.5% (2016 : 30%)   | 1,213,559    | (235,443)    |
| Effect of revenue losses not recognised as deferred tax assets                                      | (1,213,559)  | 235,443      |
| 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\$3,259,518 (2016: US\$1,073,852) and unrecognised deferred tax balances of \$1,491,220 (2016: \$789,769)

#### 8. Auditor's remuneration

##### a) BDO

|   | 2017<br>US\$ | 2016<br>US\$ |
|---|--------------|--------------|
| Audit and other assurance services                          | 41,196       | 43,374       |
| Other services – taxation advice, independent expert report | 9,241        | 40,192       |
| Total remuneration of BDO                                   | 50,437       | 83,566       |



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 9. Loss per share

|  | 2017<br>Cents per<br>share | 2016<br>Cents per<br>share |
|--|----------------------------|----------------------------|
| Basic loss per share (using weighted average number of shares)   | (1.89)                     | (0.36)                     |
| Diluted loss per share (using weighted average number of shares) | (1.89)                     | (0.36)                     |

#### a) Earnings used in calculating earnings per share

|  | 2017<br>US\$ | 2016<br>US\$ |
|--|--------------|--------------|
| <b>For basic earnings per share</b>                            |              |              |
| Net loss attributable to ordinary equity holders of the parent | (4,412,943)  | (784,810)    |
| <b>For diluted earnings per share</b>                          |              |              |
| Net loss attributable to ordinary equity holders of the parent | (4,412,943)  | (784,810)    |

#### b) Weighted average number of shares used

|   | 2017<br>No. Shares | 2016<br>No. Shares |
|---|--------------------|--------------------|
| Weighted average number of shares used in calculating basic and diluted earnings per share                              | 233,885,882        | 215,416,672        |
| Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share | 233,885,882        | 215,416,672        |

### 10. Cash and cash equivalents

|              | 2017<br>US\$ | 2016<br>US\$ |
|--------------|--------------|--------------|
| Cash at bank | 2,794,081    | 2,440,550    |
|              | 2,794,081    | 2,440,550    |

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## NOTES TO FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### 10. Cash and cash equivalents (continued)

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

|   | 2017<br>US\$ | 2016<br>US\$ |
|---|--------------|--------------|
| Net loss  | (4,412,943)  | (784,810)    |
| <b>Adjustments for:</b>                             |              |              |
| Depreciation of non-current assets                  |              | -            |
| Interest received classified as investing cash flow | (14,718)     | (55,569)     |
| Depletion expense                                   | 2,375,518    | 1,172,187    |
| Impairment expense                                  | 1,695,062    |              |
| Share based payments                                | 514,379      | -            |
| Other   | 97,681       | 46,191       |
| <b>Changes in assets and liabilities</b>            |              |              |
| (Increase)/decrease in trade receivables            | (300,423)    | (291,018)    |
| Increase/(decrease) in trade and other creditors    | 1,051,316    | 237,136      |
| Net cash flow from operating activities             | 1,005,873    | 324,117      |

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

|                  | 2017<br>US\$ | 2016<br>US\$ |
|------------------|--------------|--------------|
| Other Receivable | 748,435      | 469,002      |
| Term deposits    | 72,058       | 69,325       |
| GST receivables  | 29,258       | 11,031       |
| Other            | 427          | 397          |
|                  | 850,178      | 549,755      |

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 12. Property, Plant & Equipment

|                             | 2017<br>US\$ | 2016<br>US\$ |
|-----------------------------|--------------|--------------|
| Balance at 1 January        | 8,985        | 1,421        |
| Additions                   | 9,404        | 7,564        |
| Disposals                   | -            | -            |
| Depreciation expense        | -            | -            |
| Foreign exchange difference | 701          | -            |
| Balance at 31 December      | 19,090       | 8,985        |
| Cost                        | 32,103       | 21,057       |
| Accumulated depreciation    | (13,012)     | (12,072)     |
| Net carrying amount         | 19,090       | 8,985        |

### 13. Exploration and evaluation expenditure

|  | 2017<br>US\$ | 2016<br>US\$ |
|--|--------------|--------------|
| Balance at 1 January   | 15,002,839   | 13,052,468   |
| Exploration and evaluation expenditure capitalised during the period | 5,596,242    | 3,555,278    |
| Transferred to Oil & Gas properties                                  | (3,650,237)  | (1,604,907)  |
| Impairment   | -            | -            |
| Closing balance  | 16,948,845   | 15,002,839   |

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

|   | 2017<br>US\$ | 2016<br>US\$ |
|---|--------------|--------------|
| Balance at 1 January                                    | 1,751,126    | 1,318,406    |
| Transferred from Exploration and evaluation expenditure | 3,650,237    | 1,604,907    |
| Depletion expense                                       | (2,375,518)  | (1,172,187)  |
| Impairment  | (1,695,062)  | -            |
| Closing balance   | 1,330,784    | 1,751,126    |

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

- Obtaining lease extensions to 2027;
- P1 Recoverable reserves;
- Commodity price of US\$51.34 per barrel and US\$2.976 per MMBTU;
- Operating costs at an average of 40% of revenue over the production period, depending on production at that time;
- Pre-tax discount rate of 10.0%.

Economical recoverable reserves represent Management's expectations at the time of completing the impairment testing and based on the reserves statements and exploration and evaluation work undertaken by appropriately qualified persons. Operating cost assumptions were based on FY18 budgets and estimates and actual costs incurred in FY17.

## 15. Trade and other payables

|                  | 2017<br>US\$ | 2016<br>US\$ |
|------------------|--------------|--------------|
| Sundry creditors | 1,486,603    | 435,285      |
|                  | 1,486,603    | 435,285      |

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

|   | 2017<br>US\$ | 2016<br>US\$ |
|---|--------------|--------------|
| Class A, B and C Convertible Milestone Notes* | 4,212        | 3,907        |
|   | 4,212        | 3,907        |

\*No Convertible Milestone Notes were issued during the year.

| Convertible Milestone Notes          | Class A | Class B | Class C |
|--------------------------------------|---------|---------|---------|
| Convertible Milestone Notes on issue | 10,000  | 20,000  | 30,000  |
| Loans due                            | 702     | 1,404   | 2,106   |
| Total                                |         |         | 4,212   |

### Terms and conditions of Convertible Milestone Notes

|                                    | Issue price<br>A\$ | Interest rate | Security  | Term                     | Conversion price<br>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 Note | 0.10               | Interest free | unsecured | expires on 30 April      | \$0.0001 per fully paid ordinary       | Each Milestone Note converts to 1,000 fully paid ordinary shares in the Company upon the Company announcing to ASX that during the  |

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## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

|                                     | Issue price<br>A\$ | Interest rate | Security  | Term                     | Conversion price<br>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

|   | 2017<br>US\$            | 2016<br>US\$              |
|---|-------------------------|---------------------------|
| 285,148,832 (2016 : 215,416,672) fully paid ordinary shares | 28,937,201              | 24,172,873                |
| <b>Fully paid ordinary shares</b>                           | <b>Number of Shares</b> | <b>Share capital US\$</b> |
| <b>Balance at 1 January 2016</b>                            | 215,416,672             | 24,172,873                |
| Issue of shares   | -                       | -                         |
| <b>Balance at 31 December 2016</b>                          | 215,416,672             | 24,172,873                |
| Rights Issue  | 34,732,160              | 2,395,059                 |
| Placement   | 35,000,000              | 2,629,200                 |
| Costs of issues   | -                       | (259,931)                 |
| <b>Balance at 31 December 2017</b>                          | 285,148,832             | 28,937,201                |

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## NOTES TO FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### 18. Option Premium Reserves

|                                       | Number of Options       | US\$             |
|---------------------------------------|-------------------------|------------------|
| <b>Balance at 1 January 2016</b>      | 30,000,000              | 1,891,620        |
| Recognition of option premium reserve | -                       | -                |
| <b>Balance at 31 December 2016</b>    | 30,000,000 <sup>1</sup> | 1,891,620        |
| Recognition of option premium reserve | -                       | -                |
| Executive Options <sup>2</sup>        | 6,500,000               | -                |
| Director Options <sup>2</sup>         | 9,000,000               | -                |
| <b>Balance at 31 December 2017</b>    | <b>45,500,000</b>       | <b>1,891,620</b> |

#### 1 Terms and conditions of existing options

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

#### 2 Share based payments

|                                      | 2017<br>US\$   | 2016<br>US\$ |
|--------------------------------------|----------------|--------------|
| <b>Balance at 1 January</b>          | -              | -            |
| Share based payments during the year | 514,379        | -            |
| Foreign currency translation         | (11,510)       | -            |
| <b>Balance at 31 December</b>        | <b>502,869</b> | <b>-</b>     |

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

| Name                     | No of options granted | No of options vested | No of options forfeited | Outstanding at 31 December 2017 | Exercisable at 31 December 2017 |
|--------------------------|-----------------------|----------------------|-------------------------|---------------------------------|---------------------------------|
| <b>Executive options</b> |                       |                      |                         |                                 |                                 |
| Hugh Idstein             | 3,500,000             | 2,500,000            | -                       | 1,000,000                       | 2,500,000                       |
| Austin Gard              | 1,000,000             | 500,000              | -                       | 500,000                         | 500,000                         |
| Eldar Hasanov            | 500,000               | 250,000              | -                       | 250,000                         | 250,000                         |
| Julian Ayala             | 500,000               | 250,000              | -                       | 250,000                         | 250,000                         |
| Stephen Hermeston        | 1,000,000             | 500,000              | -                       | 500,000                         | 500,000                         |
| <b>Total</b>             | <b>6,500,000</b>      | <b>4,000,000</b>     | <b>-</b>                | <b>2,500,000</b>                | <b>4,000,000</b>                |
| <b>Directors options</b> |                       |                      |                         |                                 |                                 |
| Neville Henry            | 5,000,000             | 5,000,000            | -                       | -                               | 5,000,000                       |
| Peter Allchurch          | 500,000               | 500,000              | -                       | -                               | 500,000                         |
| John Kenny               | 2,500,000             | 2,500,000            | -                       | -                               | 2,500,000                       |
| James Hodges             | 500,000               | 500,000              | -                       | -                               | 500,000                         |
| Larry Liu                | 500,000               | 500,000              | -                       | -                               | 500,000                         |

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

|              |                  |                  |          |          |                  |
|--------------|------------------|------------------|----------|----------|------------------|
| <b>Total</b> | <b>9,000,000</b> | <b>9,000,000</b> | <b>-</b> | <b>-</b> | <b>9,000,000</b> |
|--------------|------------------|------------------|----------|----------|------------------|

### Vesting conditions

| Executive         | Options   | Vesting conditions   |
|-------------------|-----------|--|
| Hugh Idstein      | 2,500,000 | Fully vested from the date of their grant  |
|                   | 500,000   | Vest after a period of 12 months of continued further service from the date of grant |
|                   | 500,000   | Vest after a period of 24 months of continued further service from the date of grant |
| Austin Gard       | 500,000   | Fully vested from the date of their grant  |
|                   | 500,000   | Vest after a period of 12 months of continued further service from the date of grant |
| Eldar Hasanov     | 250,000   | Fully vested from the date of their grant  |
|                   | 250,000   | Vest after a period of 12 months of continued further service from the date of grant |
| Julian Ayala      | 250,000   | Fully vested from the date of their grant  |
|                   | 250,000   | Vest after a period of 12 months of continued further service from the date of grant |
| Stephen Hermeston | 500,000   | Fully vested from the date of their grant  |
|                   | 500,000   | Vest after a period of 12 months of continued further service from the date of grant |

The AASB 2 fair value of the option was calculated using Black-Scholes modelling. For expensing purposes, a fair value of AUD\$4.6 cents and AUD\$6.9 cents per share for executive options and AUD\$4.5 cents per share for director's options were calculated. The following inputs were used in the calculation:

|   | Executive options | Executive options | Directors options |
|---|-------------------|-------------------|-------------------|
| Valuation date (equal to grant date under AASB 2) | 9 March 2017      | 2 November 2017   | 12 April 2017     |
| Exercise price                                    | 12 cents          | 12 cents          | 12 cents          |
| Expiration date                                   | 31 January 2022   | 31 January 2022   | 31 January 2022   |
| Share price at valuation date                     | \$0.081           | \$0.125           | \$0.080           |
| Risk free rate of interest                        | 2.39% p.a.        | 2.23%             | 2.04% p.a.        |
| Company share price volatility                    | 80% p.a.          | 80%               | 80% p.a.          |
| Fair value  | \$0.046           | \$0.069           | \$0.045           |

### 19. Foreign currency translation reserve

|  | 2017<br>US\$ | 2016<br>US\$ |
|--|--------------|--------------|
| <b>Balance at 1 January</b>                      | (3,170,924)  | (3,231,113)  |
| Movement in foreign currency translation reserve | 283,845      | 60,189       |
| <b>Balance at 31 December</b>                    | (2,887,079)  | (3,170,924)  |

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

|                                | 2017<br>US\$ | 2016<br>US\$ |
|--------------------------------|--------------|--------------|
| <b>Balance at 1 January</b>    | (3,579,506)  | (2,794,696)  |
| Movement in accumulated losses | (4,412,943)  | (784,810)    |
| <b>Balance at 31 December</b>  | (7,992,449)  | (3,579,506)  |

## NOTES TO FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### 21. Key management personnel

| Key management personnel compensation | 2017<br>US\$   | 2016<br>US\$   |
|---------------------------------------|----------------|----------------|
| Short-term employee benefits          | 452,910        | 426,216        |
| Post-employment benefits              | 701            | -              |
| Share-based payment                   | 310,594        | -              |
|                                       | <u>764,205</u> | <u>426,216</u> |

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   | 2017<br>US\$   | 2016<br>US\$   |
|---|----------------|----------------|
| Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows: |                |                |
| Within 1 year   | 134,865        | 231,198        |
| After 1 year but not more than 5 years  | -              | 341,562        |
| More than 5 years   | -              | -              |
|   | <u>134,865</u> | <u>572,760</u> |

#### Capital expenditure commitments

There are no capital commitments at 31 December 2017.

#### Other expenditure commitments

There are no other expenditure commitments at 31 December 2017.

#### 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.

|                          | 2017<br>US\$      | 2016<br>US\$      |
|--------------------------|-------------------|-------------------|
| Assets                   |                   |                   |
| Current assets           | 2,255,640         | 2,258,736         |
| Non-current assets       | 22,502,720        | 18,262,569        |
| <b>Total assets</b>      | <u>24,758,360</u> | <u>20,521,305</u> |
| Liabilities              |                   |                   |
| Current liabilities      | 66,970            | 7,115             |
| Non-current liabilities  | 4,212             | 3,907             |
| <b>Total liabilities</b> | <u>71,182</u>     | <u>11,022</u>     |

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## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

| <b>Equity</b>                |                   |                   |
|------------------------------|-------------------|-------------------|
| Issued capital               | 28,937,201        | 24,172,873        |
| Accumulated losses           | (3,721,219)       | (2,383,286)       |
| Option premium reserve       | 1,891,620         | 1,891,620         |
| Share based payment reserve  | 502,869           | -                 |
| Foreign currency translation | (2,923,293)       | (3,170,923)       |
| <b>Total equity</b>          | <b>24,687,178</b> | <b>20,510,284</b> |

### Financial Performance

|                                 | 2017<br>US\$       | 2016<br>US\$     |
|---------------------------------|--------------------|------------------|
| Loss for the year               | (1,337,933)        | (612,229)        |
| Other comprehensive loss        | 247,630            | 60,189           |
| <b>Total comprehensive loss</b> | <b>(1,090,303)</b> | <b>(552,040)</b> |

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## NOTES TO FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### 24. Subsidiaries

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

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

#### 25. Contingent assets and liabilities

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

#### 26. Fair values of financial instruments

##### Recurring fair value measurements

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

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

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

#### 27. Related party transactions

During the year Winchester Energy LLC paid US\$73,202 to Siena Energy LLC, a company owned by Neville Henry and Hugh Idstein for use of server, software, data and data room services. During the year Winchester Energy LLC paid US\$649,659 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 reporting 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.

## 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 2017, 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 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

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

#### Material uncertainty related to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.

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

### Carrying Value of Oil & Gas Properties

| <i>Key audit matter</i>  | <i>How the matter was addressed in our audit</i>  |
|--|---|
| <p>At 31 December 2017 the carrying value of Oil and Gas Properties was \$1,330,784 (2016: \$1,751,126) as disclosed in Note 14. During the year the Group identified indicators of possible impairment relating to the asset. As a result, the Group undertook an impairment assessment and recognised an impairment charge of \$1,695,062 as disclosed in Note 14. Refer to Note 2 (n) and Note 3 (ii) for the detailed disclosures that includes the related accounting policies and the critical accounting judgements and estimates.</p> <p>This is a key audit matter as the carrying value requires management to make significant accounting judgements and estimates in producing the impairment model used for determining recoverable amount of the Oil &amp; Gas Properties.</p> | <p>We evaluated management's impairment model at 31 December 2017 by challenging estimates and assumptions used by management in arriving at their assessment. Our work included but was not limited to the following procedures:</p> <ul style="list-style-type: none"> <li>➤ Obtaining and reviewing the reserve report prepared by management's external expert including assessing the competency and objectivity of management's expert;</li> <li>➤ Benchmarking and analysing the Group's oil and gas price assumptions against external market data;</li> <li>➤ Challenging the appropriateness of management's discount rate used in the impairment model in conjunction with our internal valuation experts;</li> <li>➤ Checking the reasonableness of the future operating cost and production cost against historical data;</li> <li>➤ Checking the production forecast against reserve report provided by the management's expert;</li> <li>➤ Evaluating and assessing the accuracy of the Group's calculation of the impairment charge; and</li> <li>➤ Assessing the adequacy of the related disclosures in Note 2(n), Note 3 (ii) and Note 14 to the financial statements.</li> </ul> |

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## Carrying Value of Oil and Gas Exploration and Evaluation Assets

| Key audit matter   | How the matter was addressed in our audit  |
|--|--|
| <p>At 31 December 2017 the carrying value of Oil and Gas Exploration and Evaluation Assets was \$16,948,845 (2016: \$15,002,839) as disclosed in Note 13. The Group's accounting policy with respect to Exploration and Evaluation assets is disclosed in Note 2 (m) and Note 3 (i).</p> <p>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 <i>Exploration for and Evaluation of Mineral Resources</i>.</p> | <p>We have evaluated management's assessment of each impairment trigger per AASB 6 <i>Exploration and Evaluation of Mineral Resources</i>, including but not limited to:</p> <ul style="list-style-type: none"> <li>➤ 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;</li> <li>➤ Holding discussions with management with respect to the status of ongoing exploration programmes in the respective areas of interest;</li> <li>➤ Considering whether any areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed;</li> <li>➤ Considering whether there are any other facts or circumstances that existed to indicate impairment testing was required; and</li> <li>➤ Assessing the adequacy of the related disclosures in Note 2(m), Note 3 (i) and Note 13 to the financial statements.</li> </ul> |

## Accounting for share-based payments

| <i>Key audit matter</i>   | <i>How the matter was addressed in our audit</i>  |
|---|---|
| <p>During the financial year ended 31 December 2017, the Group issued options to employees and key management personnel, which have been accounted for as share-based payments, as disclosed in Note 18 of the financial report</p> <p>Refer to Notes 3(iv) of the financial report for a description of the accounting policy and significant estimates and judgements applied to these arrangements.</p> <p>Share-based payments are a complex accounting area and due to the complex and judgemental estimates used in determining the fair value of the share-based payments, we consider the Group's accounting for share-based payments to be a key audit matter.</p> | <p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>➤ Reviewing the relevant agreements to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements;</li> <li>➤ Holding discussions with management to understand the share-based payment transactions in place;</li> <li>➤ Reviewing management's determination of the fair value of the share-based payments granted, considering the appropriateness of the valuation models used and assessing the valuation inputs;</li> <li>➤ Involving our valuation specialists to assess the reasonableness of management's valuation inputs;</li> <li>➤ Assessing the allocation of the share-based payment expense over the relevant vesting period; and</li> <li>➤ Assessing the adequacy of the related disclosures in Notes 3(iv) and Note 18 of the financial report.</li> </ul> |

### 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 2017, 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.

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## Responsibilities of the directors for the Financial Report

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

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

## Auditor's responsibilities for the audit of the Financial Report

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

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

[http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf)

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included pages 15 to 19 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Winchester Energy Limited, for the year ended 31 December 2017, 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, 28 March 2018

## ADDITIONAL SHAREHOLDER INFORMATION

### Ordinary share capital

The Shareholder information set out below was applicable as at 23 March 2018.

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

### Distribution of ordinary shares

| Holding Ranges          | Holders    | Total Units        | % Issued Share Capital |
|-------------------------|------------|--------------------|------------------------|
| 1 - 1,000               | 7          | 1,046              | 0.00%                  |
| 1,001 - 5,000           | 7          | 24,746             | 0.01%                  |
| 5,001 - 10,000          | 27         | 231,746            | 0.08%                  |
| 10,001 - 100,000        | 202        | 10,308,704         | 3.62%                  |
| 100,001 - 9,999,999,999 | 249        | 274,582,590        | 96.29%                 |
| <b>Totals</b>           | <b>492</b> | <b>285,148,832</b> | <b>100.00%</b>         |

### Unmarketable parcels

Based on the price per security, number of holders with an unmarketable holding: 24, with total 89,161, amounting to 0.03% of Issued Capital

### Voting Rights

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

### Substantial Shareholder

Per substantial shareholder filings:

|   | Fully Paid |            |
|---|------------|------------|
|   | Number     | Percentage |
| Mr Yang Xiangyang (Mandarin) / Mr Yeung Heung Yeung (Cantonese) and China Leader Group Pty Ltd and Inventive Holdings Ltd | 55,192,837 | 25.62      |
| Peter Donald Allchurch and Haifa Pty Ltd and Energetico Pty Ltd and Azuree Pty Ltd  | 12,278,994 | 5.7%       |
| JDK Nominees Pty Ltd as trustee for the Kenny Capital Trust and Chatsworth Stirling Pty Ltd                               | 11,718,994 | 5.44%      |

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## Twenty Largest Holders of Quoted Equity Securities

|   | Fully Paid         |                |
|---|--------------------|----------------|
|   | Number             | Percentage     |
| 1 CHINA LEADER GROUP LIMITED                                    | 47,916,667         | 16.80%         |
| 2 INVENTIVE HOLDINGS LIMITED                                    | 21,074,380         | 7.39%          |
| 3 ROJO NERO CAPITAL PTY LTD                                     | 12,320,000         | 4.32%          |
| 4 JDK NOMINEES PTY LTD  | 12,009,837         | 4.21%          |
| 5 EAGLEWOOD ENERGY LLC  | 9,655,159          | 3.39%          |
| 6 BELLARINE GOLD PTY LTD <RIBBLESDALE SUPER FUND A/C>           | 8,821,064          | 3.09%          |
| 7 AZUREE PTY LTD  | 8,300,002          | 2.91%          |
| 8 SSF AUST PTY LTD <SCHMARR FAMILY S/F A/C>                     | 6,912,105          | 2.42%          |
| 9 CELTIC CAPITAL PTY LTD <THE CELTIC CAPITAL A/C>               | 5,900,000          | 2.07%          |
| 10 TREND E&P LLC  | 5,838,009          | 2.05%          |
| 11 LUGANO HOLDINGS LLC  | 5,788,009          | 2.03%          |
| 12 CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C> | 4,280,352          | 1.50%          |
| 13 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                    | 3,694,652          | 1.30%          |
| 14 CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>  | 3,244,186          | 1.14%          |
| 15 PETER DONALD ALLCHURCH                                       | 2,899,835          | 1.02%          |
| 16 CHATSWORTH STIRLING PTY LTD                                  | 2,898,907          | 1.02%          |
| 16 ENERGETICO PTY LTD   | 2,898,907          | 1.02%          |
| 17 MR HUGH WALLACE-SMITH  | 2,635,950          | 0.92%          |
| 18 DARBY SMSF PTY LTD <DARBY SUPER FUND A/C>                    | 2,400,000          | 0.84%          |
| 19 WEBINVEST PTY LTD <OLSB UNIT A/C>                            | 2,360,936          | 0.83%          |
| 20 WILLIAM TAYLOR NOMINEES PTY LTD                              | 2,300,000          | 0.81%          |
| <b>TOTAL</b>  | <b>174,148,957</b> | <b>61.07%</b>  |
| <b>Balance of Register</b>                                      | <b>110,999,875</b> | <b>38.93%</b>  |
| <b>Grand Total</b>  | <b>285,148,832</b> | <b>100.00%</b> |

### Restricted Securities

There are no restricted securities.

### Market buyback

There is no current market buyback.

### Unquoted equity securities

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

There are 10 holders of 15,500,000 unlisted \$0.12c Options expiring 31/1/2022:

| Holder Name         | Holding   | % IC   |
|---------------------|-----------|--------|
| TREND E&P LLC       | 5,000,000 | 33.90% |
| LUGANO HOLDINGS LLC | 3,500,000 | 23.73% |

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## LAND AND LEASE HOLDINGS

The Company's lease holding is 17,402 net acres.

The Company has continuous 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 Bridgford leases and several shallow productive intervals are expected to be potentially developed in due course.

The Company's lease holding is 17,402 net acres.

|                                 | % Interest | Lease           | Location           |
|---------------------------------|------------|-----------------|--------------------|
| <b>Held at 31 December 2017</b> |            |                 |                    |
|                                 | 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 2017

| 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                    | 87.5% | Thomas Lease    |
| White Hat 38#3ML | 80                     | 60%   | White Hat Lease |
| White Hat 39#1   | 80                     | 100%  | White Hat Lease |
| Oden A#2         | 400                    | 25%   | White Hat Lease |
| White Hat 245#1  | 80                     | 50%   | White Hat Lease |

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