



WINCHESTER

ENERGY LIMITED

ACN 168 586 445

QUARTERLY REPORT

For the period ended 30 June 2015

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HIGHLIGHTS

- Production equipment was installed on the White Hat 20#1 vertical well and successful commercial oil production commenced shortly thereafter from the Ellenburger Formation. The oil being sold from White Hat 20#1 is good quality 49° API gravity oil. During the June quarter, gross oil production from White Hat 20#1 totaled to 2,322 barrels of oil (**bo**) and the average sale price was US\$51 per bo. Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.
- As a consequence of successful commercial oil production from White Hat 20#1 the operator, Carl E Gungoll Exploration LLC (**CEGX**), decided to drill a second vertical well, offset approximately 1500 metres to the north-east of White Hat 20#1. CEGX has a 50% working interest (**WI**) in White Hat 21#1 as well as in the surrounding 40 acre drilling unit. The Company owns the other 50%WI in White Hat 21#1 and the surrounding 40 acre drilling unit. Each party is paying 50% of the costs of White Hat 21#1 which has a budgeted total cost for drilling and completion of US\$1,140,000. Winchester's and CEGX's primary target in the White Hat 21#1 well is oil in the Ellenburger Formation. White Hat 21#1 reached total depth in the lower Ellenburger Formation a few days ago. Wireline logging has now been conducted and log interpretation has identified zones of conventional pay in the Ellenburger. Winchester and CEGX have decided to complete the well and production casing will now be run and cemented in order to test these potential pay zones in the Ellenburger for commercial oil production. In addition to the potential pay zones in the Ellenburger, well logging also identified unconventional oil targets in the Cline Shale and Barnett/Woodford Shale equivalents, together with a potential conventional pay zone in the Strawn Formation.
- During the quarter, the Company continued to flow test the Thomas 119-1H horizontal well whose target is the shallow depth conventional oil play in the Ellenburger Formation. The Thomas 119-1H well operator, CraRuth, continued to sell minor amounts of oil and gas during the continued prolonged testing of Thomas 119-1H. During the quarter the operations on Thomas 119-1H suffered from significant weather and operational delays.
- The Company is very well positioned to expand drilling in Nolan County, Texas, USA. Over the past 6 months the Company has developed an extensive well and seismic database over Nolan County, Texas. The Company has undertaken detailed analysis of old well logs and then reprocessed those old well logs based on new rock data (from the White Hat 20#1 and White Hat 21#1 vertical wells) in conjunction with new and reprocessed old seismic. In addition, Winchester has collected cuttings and core samples from old vertical wells and reexamined these samples using multiple technologies, an undertaking which included the application of proprietary geological, geotechnical and geophysical intellectual property that the Company owns. This technical work has enabled Winchester to identify, map and extrapolate potential pay zones across the Company's acres in the Ellenburger and other oil plays across Nolan County, Texas such as the Cambrian Sandstone, Permian Wolfcamp Sandstone, Strawn Formation, Odom and Caddo Reefs, Canyon and Cisco Sandstones, along with unconventional oil targets in the Cline Shale and the Barnett/Woodford Shale equivalents.



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CORPORATE

- The Company ended the quarter with cash reserves of approximately A\$12,291,000. The capital structure of the Company at the end of the quarter was as follows:

| | |
|----------------------------------------------------------------------------|----------------------|
| Cash | A\$12,291,000 |
| Total shares on issue | 215,416,672 |
| Total options on issue | 30,000,000 |
| Total convertible milestone notes (converting to 60,000,000 shares) | 60,000 |
| Market capitalisation @ A\$0.06 | A\$12,925,000 |
| Enterprise Value of the Company's assets | A\$634,000 |
| Founders, Board and Management (% ownership of the Company) | 19% |

LOCATION OF OIL AND GAS LEASES, TEXAS



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OIL AND GAS TENEMENTS – WORKING INTERESTS

- The Company owns a 50% **(WI)** in the horizontal Thomas 119-1H well along with a 50% **(WI)** in the well unit area which is 240 gross acres (120 net acres to the Company).
- The Company owns a 50% **(WI)** in the vertical White Hat 20#1 well along with a 50% **(WI)** in the well unit area which is 40 gross acres (20 net acres to the Company).
- The Company owns a 50% **(WI)** in the vertical White Hat 21#1 well along with a 50% **(WI)** in the well unit area which is 40 gross acres (20 net acres to the Company).
- The Company owns an 80% **(WI)** in 4,647 gross acres located in Nolan County, Texas, USA. The Company also owns a 75% **(WI)** in an additional 7,378 acres in Nolan County, Texas, USA resulting in Winchester owning 9,370 net acres.

EXPLORATION ACTIVITIES

- On the Thomas 119-1H horizontal well, a production liner with 20 external swellable packers was run to total depth of 10,265 feet. The swellable packers separate the target Ellenburger Formation into 20 intervals of approximately equal length but with different amounts of interpreted pay zones. This well configuration is allowing each interval to be perforated and tested without interference from other intervals. The operator of Thomas 119-1H, CraRuth, has only tested zones A (the toe), B, D, N, O and P. The initial encouraging oil seen in swab tests in the horizontal Thomas 119-1H, where 44° API Gravity oil was recovered, was followed by high water rates with low oil cut (3 to 10%). The lower zones (A, B and D) were tested individually for several weeks each, at various total fluid rates (from 100 to 300 barrels of fluid per day (bfd)) and then together by production pumping. These results were unexpected and appear inconsistent with wireline log data, mudlog and sample analyses. A similar result was obtained from the upper two zones N and O. The Operator, CraRuth, then decided to proceed to test Zone P with a different completion method from those used for Zones A, B, D, N and O. CraRuth notched Zone P (as opposed to perforating it) and then put the well on pump for testing. Pump testing resulted in high water rates with low oil cut (3 to 10%). The initial results for Zone P therefore were consistent with those being achieved for Zones A, B, D, N and O. The Operator has been delayed in executing phase two of the Zone P completion procedure which is comprised of an acid wash before treating Zone P with a cleanup chemical to reduce mud damage both of which have not been tried in Thomas 119-1H to date. We expect CraRuth to soon move a rig onto the well to complete this Zone P test. A complete technical review of the entire well and an engineering audit of the Thomas 119-1H horizontal well will be conducted after all the results of Zone P operations are available. There remain some 14 zones currently untested.
- Production equipment was installed on the White Hat 20#1 vertical well and successful commercial oil production commenced shortly thereafter from the Ellenburger Formation. The oil being sold from White Hat 20#1 is good quality 49° API gravity oil.
- As a consequence of successful commercial oil production from White Hat 20#1 the operator of that well, Carl E Gungoll Exploration LLC (**CEGX**) decided to drill a second



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vertical well, offset approximately 1500 metres to the north-east of White Hat 20#1. White Hat 21#1 reached total depth in the lower Ellenburger Formation a few days ago. Wireline logging and interpretation has identified zones of conventional pay in the Ellenburger. Winchester and CEGX have decided to complete the well and casing will be run and cemented in order to test these potential pay zones in the Ellenburger for commercial oil production. In addition to the potential pay zones in the Ellenburger, well logging also identified unconventional oil targets in the Cline Shale and Barnett/Woodford Shale equivalents, together with a potential conventional pay zone in the Strawn Formation.

- The Company is very well positioned to expand drilling in Nolan County, Texas, USA. Over the past 6 months the Company has developed an extensive well and seismic database over Nolan County, Texas. This technical work has enabled Winchester to identify, map and extrapolate potential pay zones across the Company's acres in the Ellenburger and other oil plays across Nolan County, Texas such as the Cambrian Sandstone, Permian Wolfcamp Sandstone, Strawn Formation, Odom and Caddo Reefs, Canyon and Cisco Sandstones, along with unconventional oil targets in the Cline Shale and the Barnett/Woodford Shale equivalents.

PLANNED ACTIVITIES – NEXT QUARTER

The planned activities for the quarter ending on 30 September 2015 are to complete and flow test the new White Hat 20#1 vertical well; continue flow testing the Thomas 119-1H horizontal well; sell the commercial oil production from the White Hat 20#1 vertical well; acquire additional oil and gas leases in Nolan County, Texas and conduct further exploration activities, including 3D seismic analysis and other field studies in order to further expand and enhance the Company's now extensive well and seismic database over Nolan County, Texas.

GLOSSARY

These definitions are provided to assist persons in understanding some of the expressions used in this report.

| | |
|--------------------------|---------------------------------------------------------------------------------------------------------|
| A\$ or Australian dollar | Australian dollars, the lawful currency of Australia. |
| ASX | ASX Limited and, where the context permits, the Australian Securities Exchange operated by ASX Limited. |
| Board | the board of Directors of the Company. |
| Boe | barrel(s) of oil equivalent. |
| Boepd | barrel(s) of oil equivalent per day. |
| Company | Winchester Energy Limited ACN 168 586 445. |
| Corporations Act | means the Corporations Act 2001 (Cth). |
| CraRuth | CraRuth Energy Corporation. |
| Eastern Shelf | refers to the eastern shelf of the Permian Basin in central west Texas, USA. |
| CEGX | Carl E Gungoll Exploration LLC |



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|-------------------|----------------------------------------------------------------------------------------------------|
| Share | an ordinary fully paid share in the capital of the Company and Shares has a corresponding meaning. |
| Shareholder | any person holding Shares. |
| USA | United States of America. |
| US\$ or US dollar | United States dollars, the lawful currency of the USA. |
| WI | working interest |

FORWARD-LOOKING STATEMENTS

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

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.

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