



WINCHESTER

ENERGY LIMITED

ACN 168 586 445

QUARTERLY REPORT

For the period ended 31 March 2016

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HIGHLIGHTS

- **White Hat Gross Production:** The three producing oil wells on the White Hat Ranch lease averaged gross production during the quarter of 300 barrels of oil per day (**bopd**). Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.
- **White Hat 21#1 (Winchester:50%WI):** Average daily gross oil production over the quarter from White Hat 21#1 was 235 barrels of oil (**bo**) per day. The pump rate was adjusted upwards during the quarter and the oil rate increased from 7 January 2016 until 4 April 2016 to an average of 239 bopd. The well has produced 43,702 bo from its first production. It has yet to commence to decline in oil production. At current rates this well continues to be one of the best producing wells in Nolan County, Texas, USA.
- **White Hat 20#1 (Winchester:50%WI):** A chemical treatment was designed and the well bore successfully treated on 15 March 2016. The well was placed back on production on 25 March 2016 with the result being an increase in oil production from 11 bopd to an average of 58 bopd over the last 5 days of the quarter. The White Hat 20#1 has produced a gross total of 6,793 bo from the Ellenburger Formation with average daily production of 12 bopd over the quarter.
- **White Hat 21#2 (Winchester:50%WI):** The White Hat 21#2 well spudded on 20 October 2015 to offset White Hat 21#1. The well was put on production on 5 January 2016 and has since produced 4,315 bo from the Ellenburger Formation with average daily production of 50 bopd over the quarter.
- **White Hat 20#2 (Winchester:50%WI):** White Hat 20#2 was spudded on 6 November 2015 to offset White Hat 21#1. After initially perforating the well, the well was fracture stimulated on 7 April 2016 utilizing a cross linked gel and sand to achieve greater oil production. The Company is awaiting flow back data from CEGX, the Operator of the well.
- **10,000 Acre Discovery Trap:** With the above 4 White Hat lease wells drilled and the accumulated data sets now interpreted, the Company's technical team believes it has established an oil producing area in the Ellenburger Formation of approximately 10,000 acres. The reservoir is quite variable in quality but the technical team believes wells drilled in this area should produce at rates of between 50 and 300 bopd per vertical well. The current lease rules provide for a 40 acre spacing between wells.
- **Additional Wells:** CEGX has proposed commencing in the first half of May 2016 the White Hat 21#4 well which is to be located a distance of 1200 feet east of the White Hat 21#1. Winchester will participate in a 50% WI position in the drilling of that well in May 2016.



- **Total Lease Holdings (17,736.21 Net Acres):** There were no substantial changes to the net acreage position of the Company in the quarter.
- **Well and Seismic database and Technical advances:** The Company has expanded its well data base to over 54,000 wells and has 3D seismic coverage over 90% of its current acreage as well as over significant offset acreage. On the engineering front the Company has identified several new enhanced recovery techniques that may help to increase current oil production rates and ultimate oil recovery. One of these techniques was successfully applied to the recent workover of the White Hat 20#1 well.

CORPORATE

The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately \$6,836,617. Approximately 75% of all cash is held in US\$. The Appendix 5B Cash Flow Report is stated in US Dollars (US\$) from Australian Dollars (AUD\$) previously. The capital structure of the Company at the end of the quarter was as follows:

Cash	AUD\$6,836,617
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\$0.07	AUD\$15,079,167
Enterprise Value of the Company's assets	AUD\$8,242,550
Founders, Board and Management (% ownership of the Company)	19%



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OIL PRODUCTION

The following gross oil production (across all oil wells in which WEL has a working interest) was recorded for the Company:

Gross Oil Production (bo)	March Quarter 2016	December Quarter 2015	March Quarter 2015
Oil Production (Gross 100%WI) ¹	26,761	19,774	267
Oil Sales (Gross 100%WI) ¹	26,839	19,525	353

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

Net Oil Production to Winchester (bo)	March Quarter 2016	December Quarter 2015	March Quarter 2015
Quarterly Oil Production (Net) ¹	13,380	9,887	134
Quarterly Oil Sales (Net) ¹	13,420	9,763	177

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

EXPLORATION AND OPERATIONS ACTIVITIES

- White Hat 21#1 (Winchester:50%WI):** The White Hat 21#1 well was placed on oil production on 17 September 2015. The well is currently producing approximately 240 bopd. It has yet to commence declining in oil production. Gas facilities were installed during the quarter by the Operator. Gas sales from the well began on 20 January 2016 at 140 mcf/d. Average daily production over the quarter from White Hat 21#1 was 235 bopd.
- White Hat 21#2 (Winchester:50%WI):** White Hat 21#2 spudded on 20 October 2015 to offset the White Hat 21#1. It is located 1,200 feet due south of White Hat 21#1. The well was put on production on 5 January 2016 and although the initial oil production rate of White Hat 21#2 was as high as 108 bopd the average production over the quarter was 50 bopd with approximately 50% water cut. Through to 4 April 2015 the White Hat 21#2 well has produced 4,315 bo from the Ellenburger Formation. The White Hat 21#2 well is slightly structurally high to the White Hat 21#1 and daily oil production rates are less than at the White Hat 21#1 location since the Ellenburger Formation at this location has lower permeability. This well may be a candidate for future stimulation or improved recovery



technologies. Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.

- **White Hat 20#1 (Winchester:50%WI):** The White Hat 20#1 was placed on production in May 2015 and production had declined to an average of 12 bopd. After recently taking fluid samples the Company determined that this well was likely to be affected by downhole formation damage and scale. The well was taken offline on 15 March 2016 and the damage was confirmed. This damage has significantly limited pump and oil production efficiency. A chemical treatment was designed and the well bore treated successfully. The well was placed back on production on 25 March 2016 and the Company has seen an increase in production from 11 bopd to an average of 58 bopd over the last 5 days of the quarter.
- **White Hat 20#2 (Winchester:50%WI):** White Hat 20#2 is located 1200 feet west of White Hat 21#1 and after perforating the Ellenburger intervals it was determined the well was a good candidate for fracture stimulation. The stimulation program commenced on 7 April 2015. The Company is awaiting flow back results.
- **Interest in White Hat Wells:** Winchester owns a 50% working interest (**WI**) in the White Hat 20#1, White Hat 21#1, White Hat 21#2 and White Hat 20#2 wells, along with a 50%WI in each of the surrounding 40 acre drilling units. The remaining 50%WI in all 4 wells is owned by CEGX. Winchester's wholly owned USA subsidiary, Winchester Energy USA Holdings Inc., owns a 75%WI in the oil and gas mineral rights of the 7,378 acres which surround these wells. CEGX owns the remaining 25%WI in these 7,378 acres.
- **Thomas 119#1H Well (Winchester 50%WI):** The Company has temporarily suspended operations on the Thomas 119-1H horizontal well due to mechanical problems. The target in this well is the conventional oil play in the Ellenburger Formation. The Thomas 119-1H well operator, CraRuth, continues to analyse future options for the Thomas 119-1H well. The Company has no immediate plans for the well, except it is considering whether to apply new drilling technologies to potentially monetise the well.
- **Additional Wells on White Hat acreage:** As previously announced CEGX proposed a further 2 vertical wells, one 1,200 feet north of White Hat 21#1 and the other 1,200 feet due east of it. With the increase in the price of oil over the past month the first well of these next 2 wells is now planned to spud in May 2016. Both of these 2 offset wells qualify as proved undeveloped locations (**PUD**) based on SEC regulations as they are one location spacing (40 acres) from the successful White Hat 21#1 well and are supported by 3D seismic mapping of the prospect by Winchester.



- **Maverick Prospect (Winchester 100%WI):** During the December quarter, Winchester acquired a 100%WI in the deep oil and gas rights of 505 acres in a Cisco Sand oil field located in Coke County, Texas. This purchase of oil and gas rights includes the prospective deeper Ellenburger Formation. The Cisco Sand oil field is a structural horst block trap and has produced over 4 million barrels of oil. The trap is supported by 2D seismic and shallow wells. The underlying Ellenburger Formation remains untested and down dip offset wells have oil in tests and cuttings. The Bronte Field is located 5 miles to the east and has produced over 18 million barrels of oil from the Ellenburger and underlying Cambrian Sandstone formations.
- **Geological and Geophysical Activities:** During the quarter new 3D processing of seismic data was received, and the Company continued detailed analysis of well logs, seismic and rock samples to select potential drilling locations on the McLeod, Arledge and Bridgeford Leases. Winchester continues to evaluate the variable reservoir characteristics of the Ellenburger Formation using petrophysical, geophysical, core and cutting sample analyses. The focus is on developing mappable high productivity fairways for future drilling locations, reducing drilling costs and improving initial production rates.

LAND AND LEASE ACTIVITIES

- **Total Lease Holdings (17,736 Net Acres):** The Company made minor adjustments in its lease positions during the quarter with the result that net acreage has changed from 17,704 net acres to 17,736 net acres. The first drilling obligations on the White Hat Ranch lease occur at the end of 2017. Future drilling obligations on other leases do not occur until the second half of 2018.



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LOCATION OF OIL AND GAS LEASES, TEXAS

The Company's holding of 17,736 net acres is mainly located in Nolan County, Texas as indicated on the map below:



OIL AND GAS LEASES – WELL WORKING INTERESTS

- The Company holds a total acreage position of 17,736 net acres across 8 lease instruments.
- 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).



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- 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 a 50%WI in the vertical White Hat 21#2 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 20#2 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 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).

PLANNED ACTIVITIES – NEXT QUARTER

The planned activities for the quarter ending on 30 June 2016 are to complete the testing of the White Hat 20#2 well, while continuing close monitoring of oil production from the White Hat 21#1, 20#1 and 21#2 vertical wells. Two additional White Hat wells have been proposed by CEGX but only one of these is expected to be drilled in the second quarter with an expected spud date in the first half of May 2016.

The Company anticipates the cash flow from this oil production to substantially meet its US administrative overhead as well as its geological and geophysical costs in the quarter.

Given the current oil price environment the Company will continue to be prudent and maintain a conservative approach to additional capital expenditures. Since all the Company's oil and gas leases are within their primary terms, the Company has no lease obligation wells in the next quarter in order to maintain its current acreage position.

The Company currently has no plans to acquire any substantial oil and gas leases in Nolan County, Texas but if favorable terms can be established it may consider small proximal lease interests. The Company will focus on further technical analyses and geologic, seismic, engineering and enhanced oil recovery activities designed to optimize future drilling by reducing costs and improving well productivity.



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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
JOA	Joint Operating Agreement
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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