



WINCHESTER

ENERGY LIMITED

ACN 168 586 445

QUARTERLY REPORT

For the period ended 30 September 2016

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HIGHLIGHTS

- During the quarter gross oil production from the 5 vertical wells on the White Hat lease averaged 385 barrels of oil per day (**BOPD**) for total gross production of 35,428 BO (previous quarter 26,159 BO gross production). Gross oil production was 428 BOPD over the 30 days ending on 20 October 2016. Winchester is entitled to 50% of net proceeds after payment of lease royalties.
- Two new wells were drilled during the quarter, White Hat Ranch 38#1 and White Hat Ranch 38#2. Winchester Energy Limited has a 50% WI in each well and the surrounding 40 acre drilling unit. The White Hat 38#1 well is currently being completed and 38#2 is likely to commence completion operations in November 2016.
- The White Hat Ranch 21#4 well was brought on production on 28 July 2016 and during the first 30 days gross oil production averaged 165 BOPD. Oil production has since increased to an average of 225 BOPD over the 30 days ending on 20 Oct 2016. Cumulative oil production for the well through to 20 October 2016 was 17,274 BO.
- The Company aims to build up its production base by continuing to drill low cost vertical wells that are economic at recent low oil prices. Assuming a vertical well cost of US\$800,000 to drill and complete, Winchester's economic modelling indicates:
 - 79% pre-tax IRR for 100 BO IP recovering 100,000 BO with US\$45 flat pricing.
 - 107% pre-tax IRR for 100 BO IP recovering 100,000 BO with US\$55 flat pricing.
 - 134% pre-tax IRR for 100 BO IP recovering 100,000 BO with US\$65 flat pricing.
- 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 our drilling results, new technologies and our 3D seismic interpretations.
- The Company has increased its lease holding in its targeted area from 18,058 net acres at the beginning of the quarter to 19,110 net acres at the end of the quarter.



CORPORATE

The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately AUD\$4,130,000. The capital structure of the Company at the end of the quarter was as follows:

Cash (AUD\$0.75: USD\$1.00)	AUD \$4,130,000
Total shares on issue and quoted	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\$0.08	AUD \$17,233,334
Enterprise Value of the Company's assets	AUD\$13,103,334
Founders, Board and Management (% ownership of the Company)	19%

OIL PRODUCTION

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

Gross Oil Production (bo)	September Quarter 2016	June Quarter 2016	March Quarter 2016	December Quarter 2015	June Quarter 2015	March Quarter 2015
Oil Production (Gross 100%WI) ¹	35,428	26,159	26,761	19,774	2,322	267
Oil Sales (Gross 100%WI) ¹	35,113	26,537	26,839	19,525	2,298	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)	September Quarter 2016	June Quarter 2016	March Quarter 2016	December Quarter 2015	June Quarter 2015	March Quarter 2015
Quarterly Oil Production (Net) ¹	17,714	13,080	13,380	9,887	1,161	134
Quarterly Oil Sales (Net) ¹	17,556	13,269	13,420	9,763	1,149	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 of White Hat Ranch.



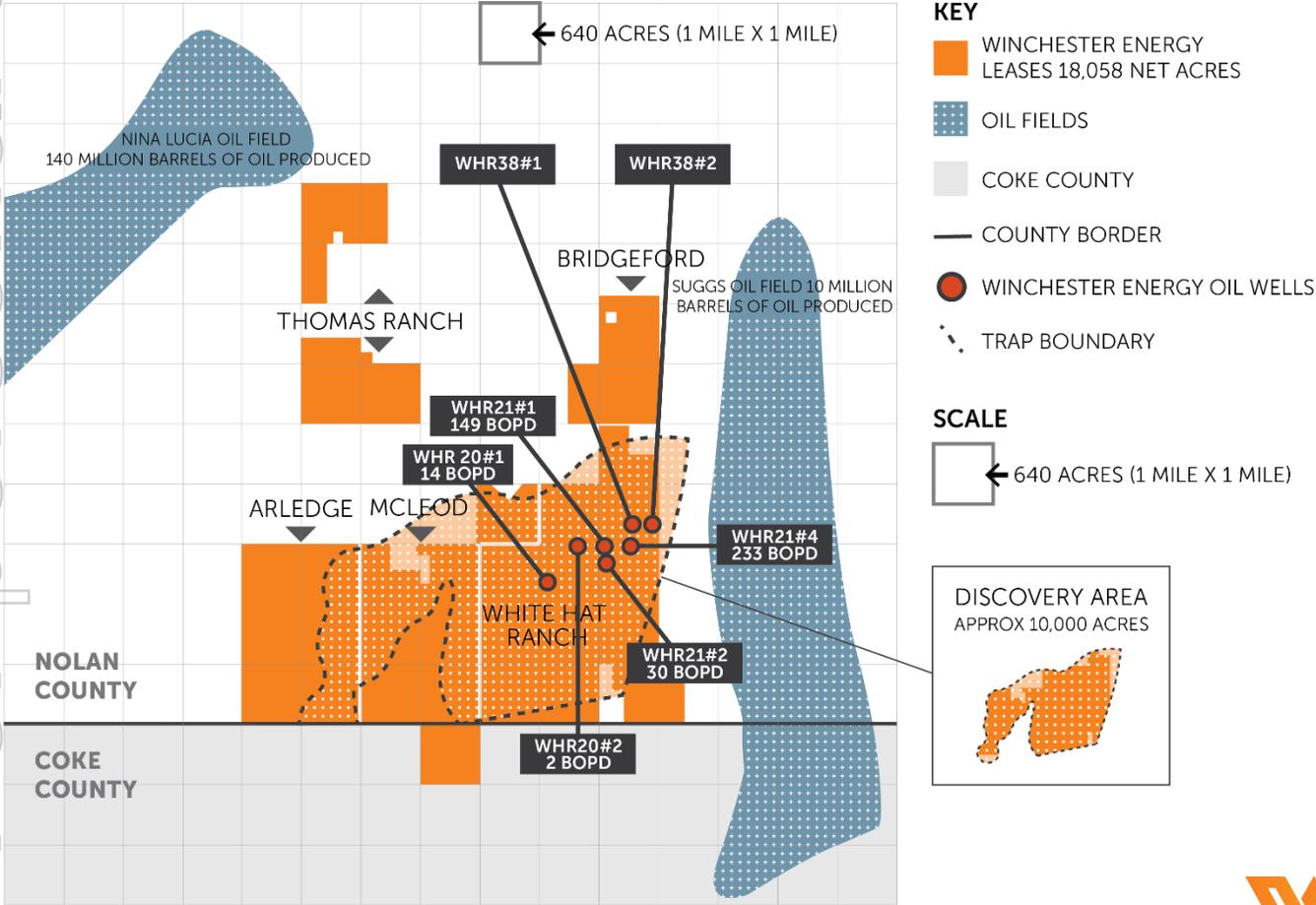
CORPORATE FOCUS AND STRATEGY

- Even in today's low oil price environment, the economics of drilling vertical wells with conventional completions in the Ellenburger Formation is attractive and generates good economic returns. The Company believes oil prices over the next 12 to 18 months are likely to remain within the range of US\$40 to US\$55 per barrel with some potential to move out of this range and potentially higher for short periods of time. If the Company can maintain an average well performance which is similar to wells in the adjacent Suggs Field it will be able to generate substantial returns.
- Winchester plans to continue building its production base and its understanding of the Ellenburger reservoir. If oil prices stabilize over \$50 per barrel the Company anticipates substantially expanding its drilling operations funded mostly from cash flow and existing cash. Winchester also aims to drive costs lower and improve well productivity going forward in order to increase potential returns.
- While drilling and developing the Ellenburger reservoir, several other shallower intervals with future development potential are being evaluated by the Company for future opportunities. These include the carbonate clastic sequence of the Strawn Formation, the high total organic carbon intervals (Three Fingers and Lower Penn Shale) within the Cline Shale Formation and several intervals within the Canyon Sands package.
- Winchester is an approved operator and anticipates initiating our own operations in 2017 once the agreement with Carl E Gungoll Exploration (**CEGX**) reverts on 1 March 2017 from its current 50:50 arrangement on a well by well basis, to a 75% working interest (**WI**) for Winchester and 25%WI for CEGX.
- 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 our drilling results, new technologies and our 3D seismic interpretations. The Ellenburger is variable in its reservoir characteristics, its porosity and permeability, its fracture density and the ratio of dolomite and limestone. The Company plans to test and evaluate several completion techniques (such as Ultra Short Radius multiple laterals and small vertical fracture stimulations) to improve well productivity when required. This is anticipated to improve the economics of wells which have low initial productivity with standard completions.
- Within the 10,000 acre area referred to above, the Company, using its 3D seismic and drilling data base, has interpreted an area of some 5,000 acres within the White Hat Ranch lease where the per well Estimated Ultimate Recovery (**EUR**) could average 100,000 BO per well, which is comparable with the average EUR of wells in the Suggs Field immediately



east of the White Hat Ranch lease. Within that 5,000 acres, seismic interpretation indicates an area of some 1,000 acres where higher (double the above average EUR) production might be found (like the production rates of the White Hat 21 # 1 and White Hat 21 # 4 wells). There are potentially 25 well locations in this 1,000 acres (40 acre spacing) with interpreted high quality reservoir, where target average oil recovery of 200,000 BO per well is possible and this yields the potential of a gross 5,000,000 BO to be produced. When combined with 4,000 acres of interpreted medium potential reservoir with 100 well locations (40 acre spacing) each having an estimated average EUR of 100,000 BO this indicates a gross potential of 15,000,000 BO. Winchester owns 75% of the White Hat lease and the trap which indicates therefore a potential of 11,250,000 BO (net to Winchester) less the additional 25% WI CEGX earns in its drilling program that expires on 1 March 2017. It is possible for CEGX to earn an additional interest of 140 net acres if they complete their proposed well program by 1 March 2017 of which they have drilled 7 wells to date. This would reduce the estimated net potential to Winchester to 10,935,000 BO.

10,000 ACRE OIL TRAP



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- In the light of uncertainty regarding future oil and gas prices, the Company is striving to evaluate ways to improve well productivity and economics. The Company has signed a LOI with a specialist group with proprietary short radius lateral drilling technology. The Company is planning to test the technology by drilling four 500 foot lateral sections from one vertical well bore. The Company believes this technology will allow improved well productivity as it will provide the ability to intersect multiple fracture zones. At the same time these laterals will also connect the zones of better productive characteristics in the well. The Ellenburger has been shown to have highly variable porosity due to multi staged, post depositional mineralization effects on the reservoir and we have already experienced these variations over short distances between the 7 wells drilled to date. By drilling four 500 foot laterals, Winchester believes it can expose the well bore to 2,000 gross feet of productive rock compared to about 100 gross feet in the vertical thus improving the productivity of each well significantly. The current estimated cost to drill and complete a short radius lateral well of this kind is US\$1.5 million and the current cost to drill and complete a vertical well is US\$890,000.
- The Company is also exploring several processes that may improve EUR in wells where either the recovery factor is low, decline rates are high or the water cut is high. Many carbonate reservoirs are oil wet or become oil wet. In some cases in our wells the produced reservoir fluids have generated down hole scaling that inhibits well performance. Changes in reservoir temperature and pressure at the well face can result in precipitation of various contaminants down hole, in the tubing and/or at the pump, or at the perforations and nearby rock formation. The Company is analysing produced fluids to identify these risks and designing chemical treatments to manage the negative effects. In addition, the Company is looking into future treatments and technologies that may increase oil production and decrease water production by addressing the oil wet characteristics of the reservoir. Oil wet reservoirs means that more oil is attached to the rock surface and cannot be produced without changing the electrical charge properties that hold the oil molecules to the rock.

EXPLORATION AND OPERATIONS ACTIVITIES

- **White Hat 38#2 (Winchester:50%WI):** The White Hat 38#2 vertical well reached a total depth (TD) of 7,128 feet on 6 October 2016. The operator is presently preparing the well for completion.
- **White Hat 38#1 (Winchester:50%WI):** The White Hat 38#1 vertical well reached a total depth (TD) of 7,070 feet on 19 September 2016. The well is currently undergoing completion and is likely to be fracture stimulated.
- **White Hat 21#4 (Winchester:50%WI):** The first 30 days gross production averaged 165 BOPD. The well was brought online slowly to allow maximum production while reducing



the risk of mechanical damage from over pumping. Oil production was then increased to 230 BOPD. The most recent 30 day average production for the well ending on 20 October 2016 was 225 BOPD and 94 thousand cubic feet of gas per day (**MCFPD**) of gas. The well has produced 17,274 BO from inception through to 20 October 2016. Shows were encountered during drilling in several formations at shallower depth than the Ellenburger Formation but no testing was performed.

- **White Hat 21#1 (Winchester:50%WI):** The White Hat 21#1 was spud on 15 July 2015 and put on production in September 2015. It is the best producing well in the field and has had the highest production rate although the White Hat 21#4 is currently producing more oil per day. The well has produced 83,859 BO from inception through to 20 October 2016. Gross production for the quarter averaged 195 BOPD and 161 MCFPD of gas.
- **White Hat 21#2 (Winchester:50%WI):** The White Hat 21#2 well spudded on 20 October 2015 to offset White Hat 21#1 to the south. The well is located 1,200 feet due south of White Hat 21#1 and was put on production from the Ellenburger Formation on 5 January 2016 with an initial oil production rate of 108 BOPD with approximately 50% water cut. It continued to produce at a low decline rate with average daily production of 33 BOPD and 45 barrels of water per day (**BWPD**) over the quarter. The well has produced 11,852 BO through to 20 October 2016. Recent chemical analyses of samples taken from the wellhead indicate the well is experiencing some scaling and bacterial problems downhole and a new chemical treatment will soon be undertaken to attempt to improve production performance. Daily oil production rates are less than at the White Hat 21#1 location since the Ellenburger Formation at this location has lower permeability and less fractures. This well may be a candidate in the future for stimulation or application of one of the improved recovery technologies which the Company is evaluating.
- **White Hat 20#1 (Winchester:50%WI):** On the 7 July 2016 this well was chemically treated to overcome down-hole scale and bacterial problems which were restricting oil production. The average production for the quarter was 17 BOPD and the well has cumulative production of 10,377 BO. The well is being re-evaluated for future treatment to improve the production rate further.
- **White Hat 20#2 (Winchester:50%WI):** White Hat 20#2 was spudded on 6 November 2015 to offset White Hat 21#1 1200 feet to the west. After initially perforating the well, the well was a poor performer on conventional completion and on 7 April 2016 the Ellenburger Formation was fracture stimulated to attempt to improve production performance. No significant improvement in production was achieved and Winchester is now evaluating shallower targets for potential production. The well was drilled prior to the Company completing the acquisition of 3D seismic which suggests it may be outside the main Ellenburger productive fairway.



- **50%WI interest in 7 White Hat Wells:** Winchester owns a 50% working interest (**WI**) in the White Hat 38#1, White Hat 38#2, White Hat 21#4, 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 7 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 and adjoin these 7 wells. CEGX owns the remaining 25%WI in these 7,378 acres.
- **Clear Fork Well Patterson 1R:** Clear Fork Inc., an oil and gas company previously active in the Nolan County area and the owner of seismic over a substantial part of Nolan County, Texas, drilled the Patterson 1R well to a depth of 7,042 feet. The well was tested and recovered some oil but was plugged and abandoned on 8 September 2016 after the operator concluded that there were insufficient recoverable reserves to support the cost of completion. The vertical well was located 1,200 feet to the South of the White Hat 21#4 well in a separate fault trap from the current 5 producing White Hat wells and 380 feet from the Patterson #1 well it was designed to replace. Under Clear Fork's proposal Winchester decided to participate in the well at a 25%WI level as part of an agreement whereby Winchester acquired seismic data over part of Nolan County from Clear Fork. The spud date was 22 August 2016. This was a one-off commercial arrangement between Winchester and Clear Fork that applied to one 40 acre drilling unit on the White Hat lease. The cost of the well was US\$350,000 and the net cost to Winchester was US\$87,500. Participation in the well provided Winchester with valuable drilling information and more competitive cost structure information for future drilling operations. We were able to test advanced hydrocarbon testing equipment and swabbing while drilling potentially productive zones. Both sonic and formation imaging were recorded to assist in developing our understanding of the reservoir variability. Winchester believes the results point towards a drilling location further south west.

LAND AND LEASE ACTIVITIES

- The Company has increased its lease holding to 19,110 net acres from 18,058 net acres at the beginning of the quarter. It has assumed a 100% WI position in both the Bridgeford and Thomas leases (up from 80%) and the Company retains a 100% WI in the McLeod and Arledge leases.
- 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 large leases cover the 10,000 acres that is currently identified as the trap area. However, additional oil and gas are likely to be trapped in both the Thomas and Bridgeford leases as well and several shallow productive intervals are expected to be potentially developed in due course.

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LOCATION OF OIL AND GAS LEASES, TEXAS

The Company's holding of 19,109 net acres is mainly located in Nolan County, Texas as indicated on the map below:



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OIL AND GAS LEASES – WELL WORKING INTERESTS

- The Company holds a total acreage position of 19,110 net acres across 8 lease instruments.
- The Company owns a 50%WI in the vertical White Hat 38#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 38#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#4 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#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 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 31 December 2016 are:

- Finish completion activities on the White Hat 38#1 well.
- Initiate completion activities on the White Hat 38#2 well.
- Acid and chemical treatment of the White Hat 21#2 well.
- Re-completion uphole on the White Hat 20#2 well.
- Anticipated drilling of two additional wells following completion of the White Hat 38#2 well.

Given the current low 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.



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).
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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