



WINCHESTER

ENERGY LIMITED

ACN 168 586 445

QUARTERLY REPORT

For the period ended 31 December 2015

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HIGHLIGHTS

- White Hat 21#1 (Winchester:50%WI):** Average daily production over the quarter from White Hat 21#1 was 202 barrels of oil (**bo**). For the 7 day period between 13 January 2016 and 20 January 2016 the well averaged 248 bopd with no water production. Oil production from the well has yet to commence declining. The well has produced 25,642 bo from first production on 17 September 2015 through to 20 January 2016. Gas sales from the well began on 20 January 2016 at 140 mcf. The average oil sales price for the quarter was US\$38 per bo. As announced on 4 November 2015, the following are the estimates of 1P, 2P and 3P reserves for the White Hat 21#1 well:

	1P	2P	3P
Estimate of Gross Reserves (100%WI)	84 MBO	162 MBO	515 MBO
Estimate of Net Reserves to Winchester (50%WI)¹	42 MBO	81 MBO	257.5 MBO

Note 1: The above figures are pre-royalty. 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):** White Hat 20#1 well was placed on production in May 2015 and performed steadily during the quarter. From inception through to 20 January 2016, the White Hat 20#1 well has produced 5,917 bo from the Ellenburger Formation, with average daily production of 15 bopd over the quarter. 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#2 (Winchester:50%WI):** White Hat 21#2 spudded on 20 October 2015 to offset 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. Initial oil production rates were as high as 108 bopd. Recent daily oil production is averaging 48 bopd. The daily oil production rates are less than at the White Hat 21 #1 location since the Ellenburger Formation at this location has lower permeability. The well is producing however at commercial oil rates based on current oil prices and the Company will report average oil production after Carl E Gungoll Exploration LLC (**CEGX** or **Operator**) completes its efforts to find the optimal pump rate and oil production stabilizes.



- **White Hat 20#2 (Winchester:50%WI):** White Hat 20#2 was spudded on 6 November 2015 to offset White Hat 21#1. It is located 1,200 feet due west of White Hat 21#1. This well is presently ready for completion and testing of the upper Ellenburger Formation. CEGX, the Operator of White Hat 20#2, plans to begin its testing program in the Ellenburger Formation around mid-February 2016.
- **Additional Wells Proposed on White Hat acreage:** As announced during the quarter, CEGX as Operator, has 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. Both these 2 offset wells are considered to 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 supported by 3D seismic of the prospect mapped by Winchester. However, due to the current low oil price, CEGX may delay the drilling of these 2 wells which are budgeted for February and March 2016.
- **Total Lease Holdings (17,704 Net Acres):** During the quarter, Winchester acquired a 100%WI in the deep oil and gas rights of a 505 acre Cisco Sand oil field located in Coke County, Texas. Coke County is the county immediately due south of Nolan County. This purchase of oil and gas rights includes the prospective deeper Ellenburger Formation.
- **Well and Seismic database:** During the quarter, the Company continued to enlarge and enhance its well and seismic database and continued detailed analysis of well logs, seismic and rock samples. Winchester continues to evaluate the variable reservoir characteristics of the Ellenburger Formation and has identified several new enhanced recovery techniques that may help to increase current oil production rates and ultimate oil recovery.
- **Corporate Cost Reduction Program Fully Implemented:** During the quarter the Company implemented a full corporate cost reduction program to reduce costs in Australia and the USA. The cost reduction program consisted of a reduction of non-executive director fees (reduced by 50%) and other corporate overhead expenses, rationalization of the exploration and drilling program, and further cost reductions in respect of the operational team in USA. The Company has reduced committed expenditure on its leases significantly including its drilling expenditure on a per well basis.



CORPORATE

- The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately AUD\$8,002,000. Approximately 75% of all cash is held in US\$. The capital structure of the Company at the end of the quarter was as follows:

Cash	AUD\$8,002,000
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\$0.08	AUD\$17,233,334
Enterprise Value of the Company's assets	AUD\$9,231,334
Founders, Board and Management (% ownership of the Company)	19%

OIL PRODUCTION

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

Gross Oil Production (bo)	December Quarter 2015	September Quarter 2015	June Quarter 2015	March Quarter 2015
Quarterly Oil Production (Gross 100%WI) ¹	19,774	4,894	2,326	267
Quarterly Oil Sales (Gross 100%WI) ¹	19,525	4,686	2,086	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)	December Quarter 2015	September Quarter 2015	June Quarter 2015	March Quarter 2015
Quarterly Oil Production (Net) ¹	9,887	2,447	1,163	134
Quarterly Oil Sales (Net) ¹	9,763	2,343	1,043	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):** 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 202 bopd. For the 7 day period between 13 January 2016 and 20 January 2016 the well averaged 248 bopd with no water production. Oil production from the well has yet to commence declining.
- **White Hat 21#2 (Winchester:50%WI):** Initial oil production rates of White Hat 21#2 were as high as 108 bopd. Recent daily oil production is averaging 48 bopd. The daily oil production rates are less than at the White Hat 21#1 location since the Ellenburger Formation at this location has lower permeability.
- **White Hat 20#2 (Winchester:50%WI):** White Hat 20#2 is presently ready for completion and testing of the upper Ellenburger Formation. CEGX, the Operator of White Hat 20#2, plans to begin its testing program in the Ellenburger Formation in mid-February 2016.
- **Additional Wells on White Hat acreage:** 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. CEGX as Operator, has 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. Due to the current low oil price however CEGX may delay the drilling of these 2 wells which are budgeted for February and March 2016.
- **Thomas 119#1H Well (Winchester 50%):** The Operator, CraRuth, re-entered the well after attempts to modify the completion design. When doing so they encountered mechanical difficulties. Winchester has declined to participate in any additional completion attempts, at the present time, based on the current low oil price, low oil rates and likely high water production and have elected to go non-consent under the Joint Operations Agreement (JOA). Winchester continues to look at other future options for the Thomas 119#1H well and its technical review of the well is ongoing.



- **Maverick Prospect (Winchester 100%):** During the quarter, Winchester acquired a 100%WI in the deep oil and gas rights of a 505 acre 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 supported by 2D seismic and shallow wells. The underlying Ellenburger Formation remains untested.
- **Well and Seismic database:** During the quarter, the Company continued to enlarge and enhance its extensive well and seismic database over Nolan County, Texas. The Company continues detailed analysis of old well logs and reprocessing many of 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 continues to evaluate the variable reservoir characteristics of the Ellenburger Formation and has identified several new enhanced oil recovery techniques that may be employed to increase current oil rates and ultimate oil recovery. Using sonic data, FMI logs and seismic synthetics, Winchester is looking at seismic attributes to help improve definition of sweet spots similar to the White Hat 21#1 location.

LAND AND LEASE ACTIVITIES

- **Total Lease Holdings (17,704 Net Acres):** The Company has spent considerable time in dialogue and negotiations with the oil and gas mineral right owners from whom the Company has leased its 17,704 net acres of oil and gas leases. The objectives of these amendments to these leases has been to: (a) extend the primary term of the leases; (b) reduce, eliminate or defer the mandatory drilling commitments that occur during the primary term of these leases; (c) acquire satisfactory continuous drilling provisions in each of these leases permitting the extension of the entire lease if continuous drilling takes place; and (d) achieving these leases amendments at a satisfactory cost in light of the very depressed current oil price. As a result of these amendments the Company has no mandatory drilling commitments until November 2017. Any drilling undertaken between now and November 2017 is voluntary. The Company has 17,704 net acres across 8 leases.



LOCATION OF OIL AND GAS LEASES, TEXAS

The Company's holding of 17,704 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 17,704 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).



- 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 March 2016 are to complete the testing of the White Hat 20#2 well, while continuing 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 drilling is subject to an improvement in oil prices and maintaining the level of oil production in the current wells.

Given the current depressed 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 substantially acquire any further oil and gas leases in Nolan County, Texas but 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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