



QUARTERLY REPORT

For the period ended 31 December 2017



Winchester Energy field production & operations area, Permian Basin, Nolan County, West Texas



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HIGHLIGHTS

Winchester Energy Ltd's (Winchester or Company) gross oil production (across all oil wells in which Winchester has a working interest) was 17,164 barrels of oil (bo) produced during the December 2017 quarter as shown in the table below:

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

Note: These figures show gross oil production only (they exclude gas sales). Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners of the White Hat Ranch oil and gas lease.

- Total revenue was US\$385,702. Total oil revenue was US\$356,792 and total gas sales revenue was US\$28,910. The average sale price per bo was US\$51.76 and gas was \$4.40 per mcf.
- In July 2017 Winchester, as operator, drilled the vertical component of the White Hat 38#3ML multi-horizontal lateral well targeting the Ellenburger Formation.
- Through an evaluation of logs, sidewall cores, image data and other relevant information relating to the Ellenburger Formation, three prospective zones were selected as intervals for three ultra-short radius laterals (legs) drilled in the December 2017 quarter.
- Legs 1, 2 and 3 in the White Hat 38#3ML well recorded aggregate oil and gas shows of 430 feet which greatly increased the length of well bore exposed to oil and gas when compared to the vertical well with its 6 feet of interpreted oil pay in the Ellenburger Formation.
- After initial unsuccessful testing of White Hat 38#3ML with an electric submersible pump (ESP), Winchester is in the process of production testing using a conventional rod pump.
- The Company recently announced its 50% working interest (WI) in new vertical well White Hat 245#1. The well was drilled to a depth of 7,000 feet. The top of the Ellenburger was encountered at 6,810 feet and a Drill Stem Test (DST) performed from 6,830 to 6900 feet.
- The DST recovered 250 feet total fluid with 75 feet free gas, 150 feet gas and oil/drilling mud (40% oil cut) and 25 feet of water. Although oil was recovered from the Ellenburger, the DST pressure analysis indicated low permeability with slow fluid entry. CEGX elected not to complete the well and to hand over its 50% WI to Winchester.
- Winchester considers WHR245#1 a suitable future candidate for multi-lateral drilling given the oil present during drilling in the Ellenburger Formation. Winchester has also identified several shallower zones that were anticipated in the pre-drill analysis as having probable oil pay and would provide future completion candidates.



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OIL PRODUCTION SUMMARY

Total Oil Production

The following gross oil production for the December 2017 quarter (across all oil wells in which Winchester has a working interest) was recorded for the Company:

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
Net Oil Production to Winchester (bo) (50% Working Interest)*					
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.



Location of the Company's acreage position in Nolan and Coke County, Texas, USA

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To date, Winchester's wells in Nolan County have produced a total gross 268,700 barrels of oil and 145 million cubic feet of gas with cumulative net production to Winchester before royalties of 134,000 barrels of oil and 72.5 million cubic feet of gas.

There has been a decline in production this past quarter, partially as a result of normal decline, but also due to down-time for remedial well formation treatment to restore production and cold weather issues late in the quarter. CEGX is reviewing the well production and planning additional treatments to restore optimum rates of production.

OPERATIONS SUMMARY

The December 2017 quarter saw the Company undertake ultra-short radius drilling and completion activities as operator on the White Hat Ranch oil and gas lease located in the eastern shelf of the Permian Basin in central west Texas, USA. Winchester currently has a 50% working interest (**WI**) in the previous eight wells drilled to date by former operator, Carl E Gungoll Exploration LLC (**CEGX**), who holds the remaining 50% WI.

Currently the agreement with CEGX on the White Hat oil and gas lease is Winchester 75% WI/CEGX 25% WI. Further, Winchester has operatorship of the White Hat Ranch lease operations outside the eight 40 acre drilling units operated by CEGX where CEGX will continue as operator. Winchester has a 100% WI in five other leases adjacent to the White Hat Ranch oil and gas lease all of which contain the highly prospective Ellenburger Formation along with several other overlying oil-producing formations.

In a milestone for the Company, three ultra-short radius lateral legs were completed during the December quarter. Winchester believes this horizontal drilling technology will allow improved well productivity as it will provide the ability to intersect multiple fracture zones over a greater net oil pay length than present in the vertical well bore. At the same time, these horizontal laterals will also connect the zones of better productive characteristics. Success with this drilling technique, new to the area, could greatly increase oil production rates with associated enhancement of well economics and be a key driver of growth for the Company.

White Hat 38#3ML Multi-Lateral Well (WEL working Interest- 60%)

On 25 July 2017 Winchester advised that it had commenced the drilling of the White Hat 38#3ML multi-lateral well on its White Hat lease.

This well is the first well that Winchester has operated on the White Hat Ranch oil and gas lease. Winchester has a 60% WI in the White Hat 38#3ML well but is paying for 70% of the costs of the well. This arrangement is a function of a one-off contractual agreement with former operator



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CEGX, whereby CEGX is 10% free-carried by the Company in one well only. The remaining 30%WI participant in the well is US based drilling company, Ultra Short Radius Drilling (USR).

USR is a specialist group with proprietary ultra-short radius lateral drilling (or multi-lateral) technology; to be able to attract a proven drilling company such as USR to not only employ the innovative multi-lateral horizontal drilling technique to the Ellenburger Formation but also to contribute financially to the drilling of the well is a highly encouraging sign for the Company.

Following the completion of the vertical well bore component of White Hat 38#3, on 25 September 2017 the Company announced the commencement of the first of three ultra-short radius lateral legs targeting the Ellenburger Formation.

Leg 1

On 18 October the Company advised that it had reached a total depth of 500ft on the first ultra-short radius lateral in the White Hat 38#3ML well (Leg 1).

Leg 1 encountered a total of approximately 150ft of good oil and gas shows whilst drilling laterally within the upper zone of the Ellenburger Formation. After reaching total depth, the well was then swabbed and almost immediately free flowed oil and gas to surface.

After the initial production rate slowed, a clean-up acid treatment was run and subsequent swabbing over several days through two and 7/8" production tubing resulted in fluid production rates of 100 to 150 barrels of fluid per day with oil cuts increasing from 30% to 70% as the well cleaned up.

Leg 2

With a length of 470ft, Leg 2 encountered a total of approximately 200ft of good oil and gas shows within the upper zone of the Ellenburger Formation.

Leg 3

Winchester advised on 23 November 2017 that it had completed the third ultra-short radius horizontal lateral (Leg 3) in the White Hat 38#3ML well on its White Hat oil and gas lease in Nolan County, Texas, USA.

With a total length of 470ft, Leg 3 encountered a total of approximately 80ft of oil and gas shows within the upper zone of the Ellenburger Formation.

Legs 1, 2 and 3 have aggregate oil and gas shows of 430ft which has greatly increased the length of well bore exposed to oil and gas when compared to the vertical well with its 6ft of interpreted oil pay.



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The drilling results have provided proof of concept that ultra-short radius lateral drilling provides the Company with a relatively inexpensive, viable technique with which to significantly enhance the intersection of oil productive porosity, fracturing and permeability within the oil-saturated Ellenburger Formation.

For production testing of White Hat 38#3ML, the Company chose an electric submersible pump (ESP) which allows the operator greater flexibility in varying flow rates during production testing and subsequent production when compared to a conventional rod pump.

During the 3 week period of production testing the ESP experienced repeated surface electrical issues related to a faulty transformer followed by continual shutdown of the ESP as a result of over-heating and other operational issues. The situation was aggravated by unusual weather conditions in Texas and the holiday season.

Winchester has now removed the ESP from White Hat 38#3ML and is in the process of production testing using a conventional rod pump. The well is currently undergoing evaluation and production results will be reported within 30 days.

White Hat 245#1 Well (WEL working Interest- 50%)

On 15 December the Company announced the commencement of drilling of new vertical well White Hat 245#1 (WHR245#1) (Winchester 50% WI) targeting the oil productive Ellenburger Formation and overlying horizons. CEGX is the operator of White Hat 245#1.

Subsequent to the end of the December 2017 quarter, the Company announced that WHR245#1 reached a total depth of 7,000 feet.

After encountering oil and gas shows in the Ellenburger Formation, over the interval 6,830 – 6,900 feet, 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.

Winchester will now become operator with a 100% WI in the WHR245#1 well.

WHR245#1 is located approximately 2 miles south of the main group of oil producing White Hat Ranch wells (see map below).

WHR245#1 is up-dip from previous Ellenburger oil and gas production and is located on an Ellenburger structural closure. Further, 3D seismic and adjacent offset well log analyses indicate



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potential fractures in the Ellenburger Formation in the vicinity of the well as well as several overlying oil bearing shallow zones.

Winchester is encouraged by the oil that was recovered from the Ellenburger and considers the well to be a strong candidate for a future Ellenburger multi-lateral completion. In addition, Winchester has also identified several shallower zones that were anticipated targets in the pre – drill analysis as having probable oil pay and would provide future completion candidates.

Drilling costs net to Winchester are US\$200,000.

Thomas 119-1H Well – 87.5%WI

On 20 December Winchester advised that it entered into a transaction whereby it has assumed operatorship of the Thomas 119-1H well and increased its working interest in the Thomas 119-1H well from a 50%WI to an 87.5%WI in the Thomas 119-1H well.

CraRuth Energy Corporation (**CraRuth**) was the previous operator of the Thomas 119-1H well and drilled and completed the well in 2014. At that time, Winchester earned a 50%WI in the Thomas 119-1H well. Prior to the transaction, Winchester had expended US\$2,289,000 to earn this 50%WI, which was to reduce to a 25%WI after well payback. A total of US\$4,578,000 (100%WI) has been spent to date on the Thomas 119-1H well.

Subsequent to the completion of the vertical pilot hole, CraRuth drilled the 2,500ft horizontal Thomas 119-1H well in 2014. Oil and gas shows were encountered throughout the targeted interval and independent log interpretation indicated just over 700ft of potential pay zones in the Ellenburger Formation.

After an impressive initial oil test from the toe of the Thomas 119-1H well, the well was placed on pump, but the water cut rapidly increased to over 90%. Interpretation of seismic datasets indicates that the horizontal component of the Thomas 119-1H well potentially traversed faults capable of connecting the well with an underlying salt water aquifer.

Winchester, as the new operator of the Thomas 119-1H well, has issued an authority for expenditure (**AFE**) for the drilling of 2 ultra-short radius laterals in the Thomas 119-1H well. Winchester's new joint venture partner in the Thomas 119-1H well is US Energy Corporation of America Inc (**USEC**). USEC has elected to participate to the extent of a 12.5%WI in the drilling of these 2 ultra-short radius laterals.

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 and US\$175,000 cash, Winchester has sold 1,808 net acres to USEC from its Thomas, Bridgford, Arledge and McCleod lease holdings.



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USEC is a USA based oil and gas exploration and production company that is interested in several of the stacked pay horizons that occur across Winchester's acreage position. USEC is particularly interested in the overlying unconventional Cline Shale (Three Fingers Shale and Lower Penn Shale) and USEC is planning on drilling 3 fracked horizontal wells to test the Cline Shale (either Three Fingers Shale or Lower Penn Shale or both) in the near term on acreage which is in close proximity to Winchester's acreage. Any success with this planned 3 well program of fracked horizontal drilling to be undertaken by USEC will immediately add significant value to Winchester's acreage position given that all of Winchester's acreage contains Cline Shale (both Three Fingers Shale and Lower Penn Shale) target intervals.

COMPANY STRATEGY

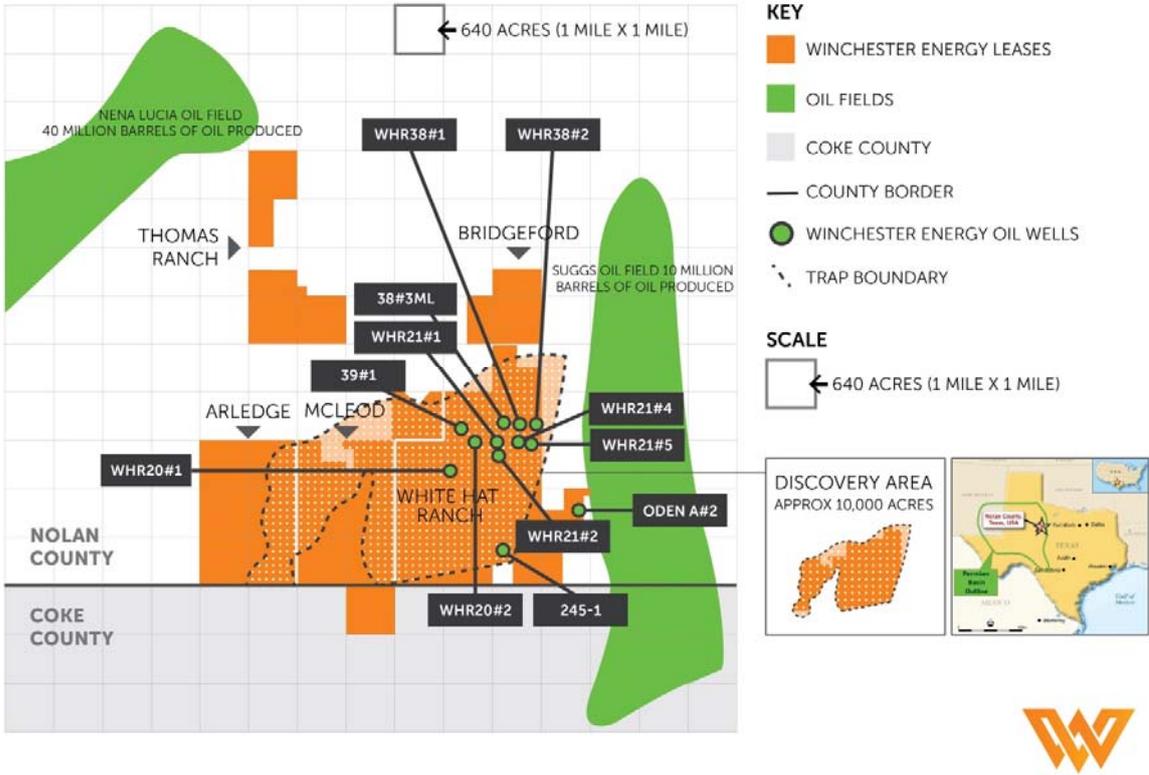
Expansion of Oil Production Base

As demonstrated by the oil production summary tabled above, Winchester derives oil production and revenue from the White Hat Ranch lease and has the stated objective of building this production base to ensure free cash flow is large enough in due course to support an on-going drilling programme.

The Company has established an area of 40 square kilometres (10,000 acres) where the Ellenburger has been proven productive in several wells (see map below) which extends over 3 leases and partially a fourth, This 40 square kilometre area (10,000 acres) out of Winchester's 17,402 net acres of leasehold is expected to be productive based on drilling results, new ultra-short radius horizontal drilling and completion technologies and 3D seismic interpretations.



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Ultra-Short Radius Drilling – Increasing Ellenburger Exposure

The Company is well advanced in trialling ultra-short radius drilling techniques in the Ellenburger Formation whereby numerous horizontal lateral wells (typically 500ft in length) can be drilled from the one vertical well bore. Winchester has an agreement with US-based drilling company Ultra-Short Radius Drilling (USR) whereby Winchester has the right to utilise USR’s proprietary short radius drilling technology exclusively across both Nolan and Coke County in Texas, USA. Should the USR horizontal drilling technique prove effective and substantially increase production rates, this is a huge advantage for the Company as it effectively provides a monopoly for the Company to utilise this technology over a vast area of the Ellenburger.

USR are participating in White Hat 38#3ML. To be able to attract a proven drilling company such as USR to not only employ the innovative multi-lateral horizontal drilling technique to initially the Ellenburger Formation and then other horizons, but also to contribute financially to the drilling of the well is a highly encouraging sign for the Company.

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Stacked Pay Opportunities in Winchester's Leasehold acreage

The Eastern shelf of the Permian Basin has produced oil and gas from multiple intervals for over 60 years. Many of these productive zones are developed across the Winchester acreage. These include the Odom, Strawn and Canyon (Wolfcamp "D") Formations. This has become particularly significant given the production rate observed from the Fry Sand unit within the Strawn Formation in the White Hat 20#2 well. This well had an initial production rate of 200 bopd and averaged 145 bopd over its first 30 days of production. The well has produced 21,230 bo since its initial production in the Fry Sand and is currently averaging 51 bopd. Mapping has confirmed a sizeable area for future development with drilling and completion costs of less than US\$500,000 per well.

Other prospective units occur within the Strawn and Canyon Formations between 1219 -1981 metres (4,000 - 6,500 feet).

The 3D seismic evaluations have identified an undrilled Strawn Formation channel covering up to 8.1 square kilometres (2,000 acres). Winchester has also identified a significant Canyon slope fan system encased within the Cline oil shales which sourced the oil production in the 20#2 Fry sands based on geochemical samples. This system extends over an area of 10.1 square kilometres (2,500 acres).

The Company is currently conducting a detailed assessment of these intervals for drilling and production testing given oil shows during drilling across all eight wells drilled to date.

PLANNED ACTIVITIES – NEXT QUARTER

The planned activities for the quarter ending March 31, 2018 are:

- Winchester, as operator, finalise production testing of 38#3ML and proceed to a review of vertical well 39#1 as a candidate for horizontal lateral drilling.
- Prepare for a re-entry of the Thomas Ranch 119 vertical well bore where the company is planning two ultra-short radius horizontal laterals to retest the Upper Ellenburger.
- Review low producing wells and recommend reworking or recompletion activities as warranted as was done in White Hat 20 #2 which has produced over 20,000 barrels of oil from the Fry Sand.
- Identify a new location for lateral drilling in the White Hat Ranch leasehold.
- Identify well locations for commitment wells in McLeod, Arledge and Bridgeford leases that require drilling in 2018.
- Continue the detailed assessment of opportunities overlying the Ellenburger Formation (including intervals within the Strawn Formation) with a view to potentially re-entering existing under-performing wells and/or drilling new wells.
- Continued assessment of the upside potential of various Strawn and Canyon sand and carbonate opportunities within the Company's current acreage position and their potential for drilling in 2018.



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CORPORATE

During the December 2017 quarter Winchester announced that Mr Lloyd Flint has been appointed Company Secretary effective 27 October 2017. Mr Flint is an experienced Company Secretary with over 20 years' experience.

On 29 November 2017, Winchester announced the results of a capital raising of approximately 35 million new ordinary fully paid shares to sophisticated and professional investors at A\$0.10 per share each to raise approximately A\$3.5 million before expenses (Placement). The Placement was conducted within the 15% placement capacity of the Company in accordance with ASX LR 7.1.

The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately AUD\$3,583,000.

The capital structure of the Company at the end of the quarter was as follows:

Cash (AUD\$0.78: USD\$1.00)	AUD \$3,583,000
Total shares on issue and quoted	285,148,832
Total options on issue 30m @ \$0.25 (expire 30 April 2019) 15.5M @ \$0.12 (expire 31 January 2022)	45,500,000
Total convertible recoverable reserve milestone notes (converting to 60,000,000 shares)	60,000
Market capitalisation @ A\$0.095	AUD \$27,089,139
Enterprise Value of the Company's assets	AUD\$23,506,139
Founders, Board and Management (% ownership of the Company)	42%

LAND AND LEASE ACTIVITIES

As announced on 20 December 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 and US\$175,000 cash (which Winchester has received from USEC, Winchester has sold 1,808 net acres to USEC from its Thomas, Bridgford, Arledge and McCleod lease holdings. The White Hat ranch oil and gas lease is not involved in this transaction between Winchester and USEC.



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All of the Company's oil and gas leases are within their primary terms and the Company has no lease obligation wells in the next quarter in order to maintain its current acreage position.

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 wells continuously in order 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 40 square kms (10,000 acres) that is currently identified as the prospective Ellenburger trap area. However, additional oil and gas is likely to be trapped in the Ellenburger of both the Thomas and Bridgeford leases. In addition, several shallow productive intervals are expected to be potentially developed in due course over the Company's total net leasehold.

Oil and Gas Leases Held as at 31 December 2017

The Company's lease holding at the end of the December 2017 quarter is 17,402 acres.

	% Interest	Lease	Location
Held at end of quarter			
	75%	White Hat Ranch	Nolan County Texas
	100%	Bridgeford 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
Acquired during the quarter	-	-	-
Disposed during the quarter	1,808 acre reduction	Bridgeford, Thomas, Mcleod and Arledge	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.
ASX	ASX Limited and, where the context permits, the Australian Securities Exchange operated by ASX Limited.
Board	the board of Directors of the Company.



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Bo	barrel(s) of oil.
Boe	barrel(s) of oil equivalent.
Boepd	barrel(s) of oil equivalent per day.
Bopd	barrel(s) of oil per day.
CEGX	Carl E Gungoll Exploration LLC
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.
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 43 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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