



WINCHESTER

ENERGY LIMITED

ACN 168 586 445

QUARTERLY REPORT

For the period ended 30 June 2018



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

For personal use only



HIGHLIGHTS

Winchester Energy Ltd's (Winchester) gross oil production (across all oil wells in which Winchester has a working interest) was 12,660 barrels of oil (bo) for the June 2018 quarter as shown in the table below:

Gross Oil Production (bo)	June Quarter 2018	March Quarter 2018	December Quarter 2017	September Quarter 2017	June Quarter 2017
Oil Production (Gross 100%WI)	12,660	15,277	17,164	27,806	39,533
Oil Sales (Gross 100%WI)	14,210	15,049	18,022	27,409	39,833

Note: These figures show gross oil production only (they exclude gas sales). Winchester is entitled to its Working Interest share of net proceeds after royalty payments to the oil and gas mineral rights owners.

- Total revenue was US\$357,807. Total oil revenue was US\$337,092 and total gas sales revenue was US\$20,715. The average sale price per bo was US\$63.16 and gas was \$4.43 per mcf.
- Following the final completion and production testing of the horizontal lateral well in White Hat 39#1 in the Ellenburger Formation, which is currently underway, the Company plans to move up-hole to focus on the oil bearing Fry/Strawn Formation in which encouraging oil shows were observed whilst drilling. The Fry/Strawn is a proven producer in nearby WHR 20#2 where the initial production rate was 200 bopd.
- During the quarter ending 30 September 2018, Winchester will engage in promotion of the Company's acreage to key industry players to attract a farm-in partner/s to assist with drilling activities and production development into the future.
- Winchester has high confidence that its leased acreage of 17,402 net acres has significant oil resource potential across a host of proven oil-producing formations.

OIL PRODUCTION SUMMARY

Winchester currently has a 50% working interest (WI) in eight producing wells.

Winchester recorded the following gross and net oil production for the quarter ended 30 June 2018 (across all oil wells in which Winchester has a working interest):

Gross Oil Production (bo)*	June Quarter 2018	March Quarter 2018	December Quarter 2017	September Quarter 2017	June Quarter 2017
Oil Production (Gross 100%WI)	12,660	15,277	17,164	27,806	39,533
Oil Sales (Gross 100%WI)	14,210	15,049	18,022	27,409	39,833
Net Oil Production to Winchester (bo) (50% Working Interest)*					
Quarterly Oil Production (Net)	6,346	7,658	8,582	13,903	19,766
Quarterly Oil Sales (Net)	6,969	7,561	9,011	13,704	19,916

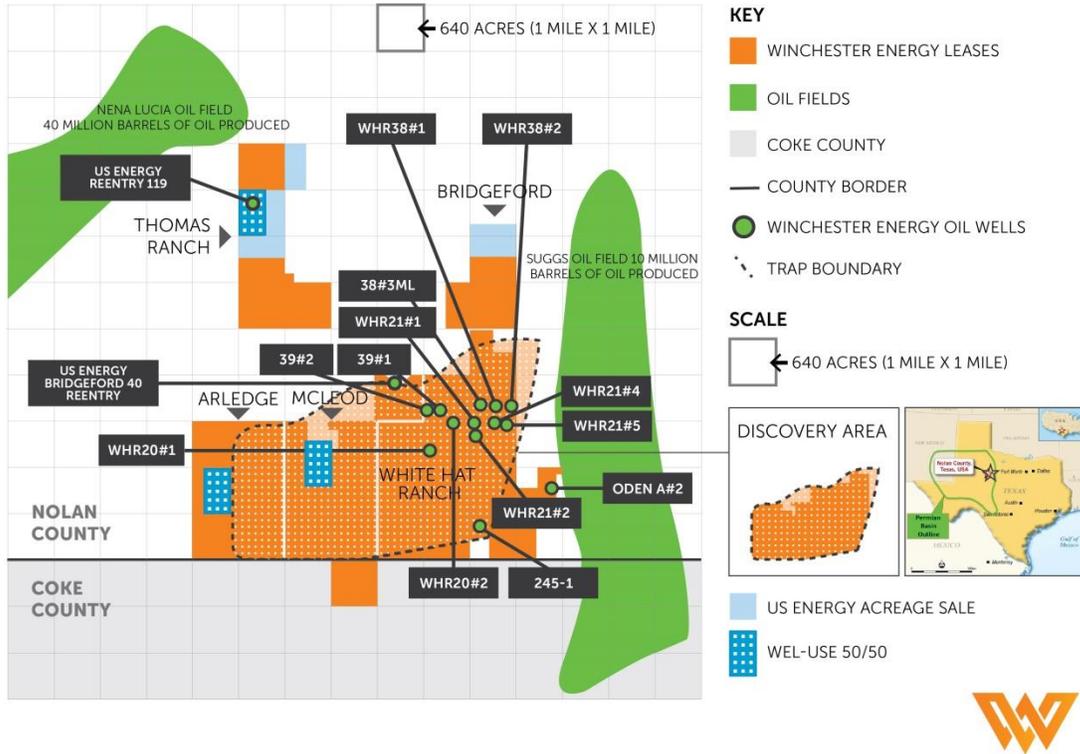
* Please note that all oil and gas production is subject to royalty payments to the oil and gas rights owners. The figures represented above are for oil production only (and exclude gas sales) and are pre-royalty.



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

For personal use only

To date, Winchester's wells in Nolan County have produced a total gross 294,080 barrels of oil and 162 million cubic feet of gas with cumulative net production to Winchester before royalties of 147,040 barrels of oil and 81.5 million cubic feet of gas.



OPERATIONS SUMMARY

The quarter ending 30 June 2018 saw the Company undertake 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 has a 75% WI and operatorship of the White Hat Ranch lease in approximately 7,400 acres with CEGX holding various working interests between 40 -50% in approximately 1,200 acres. Winchester also has a 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 shallow oil-producing formations.

The Eastern Shelf has multiple, stacked reservoirs and Winchester has high confidence that the Eastern Shelf of the Permian Basin and in particular its leased acreage of 17,402 net acres in

For personal use only

Nolan County has significant oil resource potential across a host of historically producing formations such as the Ellenburger, the Fry/Strawn Sands as well as the thick Penn Carbonate, Wolfcamp "D" organic shales, Crystal Falls (Canyon) and Cisco formations. These are located between 4,000 – 7,500 feet and can be targeted with modest drilling and completion cost, supported by existing infrastructure.

Horizontal Lateral White Hat 39#1 (WEL Working Interest 40% - 77.5%)

WEL has a 77.5% WI in the Ellenburger Formation activities and a 40% WI in the formations overlying the Ellenburger Formation.

On 13 June 2018 Winchester, as operator, announced the commencement of completion activities at horizontal lateral well White Hat 39#1L. The White Hat 39#1L well was completed from the lateral section of the Ellenburger Formation. The completion comprised a 20,000 gallon acid stimulation.

The well was placed on pump and initially returned an encouraging oil cut on daily production volumes of 100 to 200 barrels of fluid. Initial production rates were indicative of good fluid entry into the well bore from the targeted fractures in the Ellenburger Formation.

Despite encouraging initial oil recoveries, over the course of several weeks of subsequent production testing on pump the oil cut continued to decline to trace levels.

Prior to moving up-hole to focus on the oil bearing Strawn Formation in which encouraging oil shows were observed whilst drilling the vertical component of the well, a production build up test was performed in the Ellenburger.

The well pressure built back up to virgin formation pressure over 10 days. The well was put back on production at 25% pump run time on July 13, 2018. The well recovered 80 barrels of fluid per day, with no oil however the fluid level remained high. The pumping duration was increased to 50% run time on July 23, 2018 and a 10% oil cut was seen on day two with a fluid rate of 100 bpd. The well has continued to make a similar rate though July 29, 2018 and will remain under observation to determine if the well will return to higher oil cuts observed during swabbing. At this time it is unlikely the WHR 39#1 L well will produce oil at rates originally anticipated.

As previously announced, Winchester is currently planning to test and if necessary carry out a fracture stimulation of the shallower zones within the Strawn Formation that exhibited encouraging oil shows and calculated oil pay zones in White Hat 39#1. Importantly, a good result from this operation in the Strawn/Fry zones will allow the company to target several additional Strawn/Fry completions in other existing wells.

Winchester currently derives production from the Fry Sand and Strawn Formation in the White Hat 20#2 well. This well, which was fracture stimulated, continues after nearly a year of production to be an excellent producer at 45 bopd and has produced approximately 30,000 barrels of oil.

White Hat 39#1ML is 0.5 miles northwest of the Fry Sand and Strawn Formation oil producing White Hat Ranch 20#2 well and 1.5 miles west of the producing White Hat Ranch Ellenburger wells.

In the shallow Fry Sand/Strawn Formation Winchester is the operator with a 40% WI.

White Hat 38#3ML Multi-Lateral Well (WEL Working Interest- 78%)

During the June 2018 quarter, Winchester completed the perforation and acid treatment of prospective zones within the Strawn and Fry Sands in existing well White Hat 38#3ML. Based on wireline logs obtained whilst drilling the original vertical well, the Company identified a prospective 166ft zone within the historically productive Strawn/Fry Sands.

After plugging back above the Ellenburger Formation in which the three horizontal laterals were drilled, three intervals totalling 16ft within the 166ft Strawn/Fry prospective zone were perforated and subjected to spot acidisation to clean up and improve near-wellbore permeability. A pumping unit was then installed on the well which recovered 49 barrels of oil and a small quantity of water similar to the pre-frack results from White Hat 20#2.

This is an encouraging result for the Company as the White Hat 20#2 after fracking has produced approximately 30,000 barrels of oil in the first year of production and continues to produce at rates of 45 -50 bopd after 12 months of production.

Winchester is now considering completion with fracture stimulation in the shallow Fry/Strawn interval of White Hat 38#3ML, following partners approval.

COMPANY STRATEGY

Following the second Ellenburger horizontal well, in which the results in the short radius horizontal wells have failed to meet expectations, Winchester's efforts will be refocused on a vertical drilling program in its oil producing formations. This program is designed to best exploit multiple reservoir "stacked" targets in the Wolfcamp "D" organic shales, Lower Pennsylvanian and Ellenburger formations.

Winchester is currently seeking interest from prospective farm in partners to explore and exploit its 17,402 net acre lease position. This large acreage position is enhanced by the 65,000 acres of 3D seismic that covers all Winchester's acreage and significant offset acreage. A significant cost reduction programme has been implemented, this, together with ongoing oil and gas revenues, will enable the Company to pursue the identified opportunities in oil-bearing formations overlying the Ellenburger and provide time to pursue farm in partners, assuming no major reduction in the price of oil or monthly production.

Winchester will now aggressively pursue potential farmout drilling opportunities and plans to roll out formal farmout drilling proposals for industry participation early in the quarter ending 30 September 2018 with the aim for farmout drilling to commence prior to the end of the quarter.

The current short list of drillable farmout prospects are:

1. El Dorado: 4 way mapped 3D seismic closure with oil pay potential from Cisco Sands, the Wolfcamp "D" shales, Strawn and Ellenburger formations.
2. Strawn Channel: Large Stratigraphic trap, seismically defined with new 3D processing and with Strawn reservoir section. Contains fractured Ellenburger, Wolfcamp "D" shales and Crystal Falls objectives.
3. Bast High: Two locations within a large Strawn Prospect. Two locations have been developed. Cisco sands, Wolfcamp "D" shales and Ellenburger formations will be secondary targets. The Bast area has produced some 300,000 barrels of oil from Cisco and Strawn sandstones.
4. Maverick Structure: Ellenburger Fault Block next to the Bronte Oil Field that has produced over 18 million barrels of oil from the Ellenburger and Cambrian section. The acreage is held by the overlying Cisco wells which have produced over 4 million barrels of oil.

Winchester is also continuing work on refining the Ellenburger vertical development plan based on a statistical drilling approach. A substantial resource with economic value is interpreted if development drilling when implemented is successful.

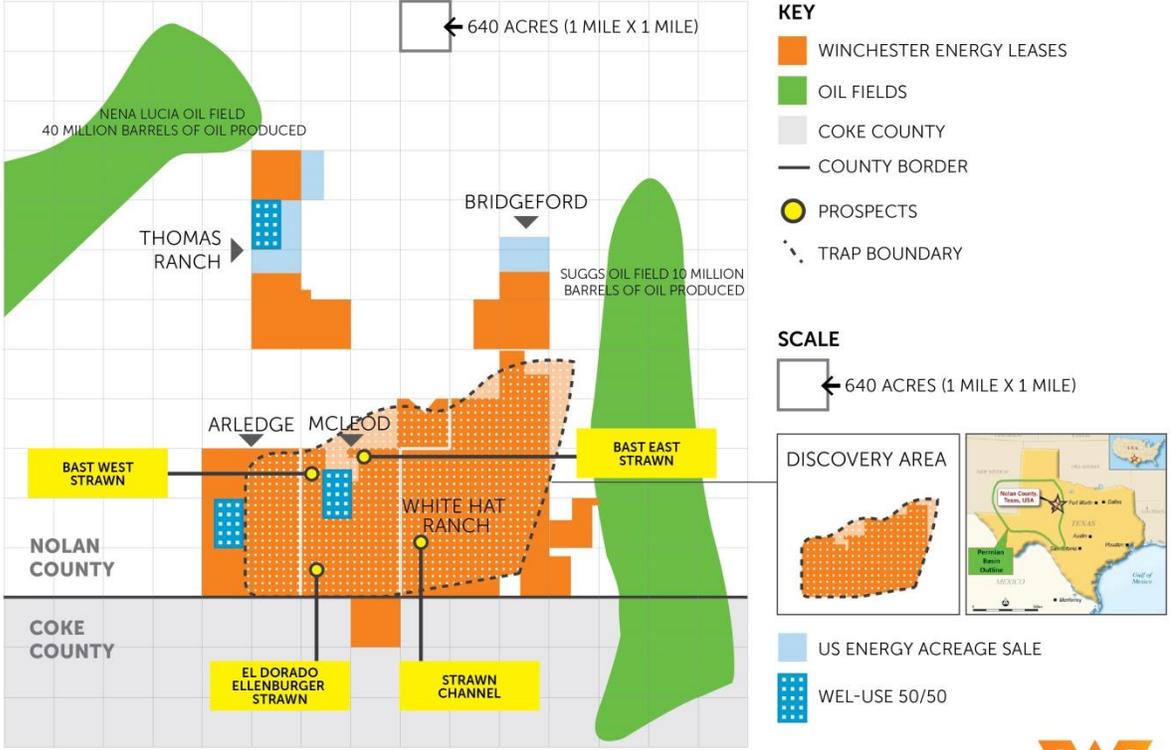
Expansion of Oil Production Base

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.

Winchester has established an area of over 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.

Further, the Company is pursuing a series of known oil-producing formations, such as the Fry/Strawn Sands, overlying the Ellenburger Formation.

The planned farmout drilling effort with drilling success will provide the opportunity to substantially increase oil production from Winchester's existing acreage.



Stacked Pay Opportunities in Winchester's Leasehold Acreage

Within the White Hat Ranch oil and gas lease there are several intervals with development potential. This has become particularly significant given the production rate observed from a sand unit within the Strawn Formation in the White Hat 20#2 well.

As well as other intervals within the Strawn Formation, other prospective units include the Wolfcamp "D" high total organic carbon shale intervals - Three Fingers Shale and Lower Penn Shale within the Cline Shale Formation and several intervals within the Canyon Sands package.

The Barnett equivalent shales overlying the Ellenburger have high organic material and are expected to become a potential unconventional resource within Winchester's acreage position. Several of these formations have already produced significant oil and gas from Nolan County and other areas within the Permian Basin.



For personal use only

Winchester is currently conducting a detailed assessment of these intervals for production given oil shows during drilling across all eight wells.

In a validation of the stacked pay potential within Winchester's acreage, US Energy Corporation of America (US Energy) is planning in the near future to test the Permian Basin Wolfcamp "D" Shale oil potential in several wells that they may re-enter to horizontally drill and fracture stimulate. These wells will be within or near Winchester's leases. This activity by US Energy will provide at minimal cost to Winchester, an important evaluation of the potentially significant Permian Wolfcamp "D" Shale oil resource potential in Winchester's and its adjacent acreage.

PLANNED FUTURE ACTIVITIES

The planned activities for the quarter ending September 30, 2018 are:

- Completion activities and fracture stimulation of the Fry/Strawn Sands intervals within the White Hat 39#1 well following completion of current production testing in the Ellenburger.
- Thomas Ranch 119 1H re-entry proposed by US Energy to evaluate the oil production potential of the Wolfcamp "D" shales by carrying out a fracture stimulation program.
- Promotion of the Company's acreage to attract a farm-in partner/s to accelerate drilling activities and production development.

CORPORATE

The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately AUD\$1,554,000.

The capital structure of the Company at the quarter ending 30 June 2018 was as follows:

Cash (AUD\$0.74: USD\$1.00)	AUD \$1,554,000
Total shares on issue and quoted	285,148,832
Total options on issue 30m @ \$0.25 (expire 30 April 2019) 20.0M @ \$0.12 (expire 31 January 2022)	50,000,000
Total convertible recoverable reserve milestone notes (converting to 60,000,000 shares)	60,000
Market capitalisation @ A\$0.015	AUD \$4,277,232
Enterprise Value of the Company's assets	AUD\$2,723,232
Founders, Board and Management (% ownership of the Company)	42%

Oil and Gas Leases Held as at 30 June 2018

Winchester's lease holding at the end of the June 2018 quarter is 17,402 acres.

	Winchester % 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
	50%	Thomas-US Energy	Nolan County Texas
	100%	Mcleod	Nolan County Texas
	50%	Mcleod-US Energy	Nolan County Texas
	100%	Arledge	Nolan County Texas
	50%	Arledge-US Energy	Nolan County Texas
	100%	Coke	Coke County Texas
Acquired during the quarter	-	-	-
Disposed during the quarter	-	-	-

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 Winchester.
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
Winchester	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 Winchester 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 Winchester, the Directors and management of Winchester. These risks, uncertainties and assumptions could cause actual results to differ materially from those expressed in any forward-looking statements. Winchester 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. Winchester 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.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

WINCHESTER ENERGY LIMITED (ASX CODE: WEL)

ABN

21 168 586 445

Quarter ended ("current quarter")

6 Months ended 30 June 2018

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (6 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	213	721
1.2 Payments for		
(a) exploration & evaluation	(129)	(1,086)
(b) development	(80)	(162)
(c) production	(91)	(473)
(d) staff costs	(94)	(212)
(e) administration and corporate costs	(178)	(379)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(359)	(1,590)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

For personal use only

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (6 months) \$USD'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,537	2,795
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(359)	(1,590)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(28)	(53)
4.6	Cash and cash equivalents at end of period	1,150	1,150

For personal use only

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$USD'000	Previous quarter \$USD'000
5.1 Bank balances	1,150	1,537
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,150	1,537

6. Payments to directors of the entity and their associates	Current quarter \$USD'000
6.1 Aggregate amount of payments to these parties included in item 1.2	85
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

During the quarter a total amount of \$113,000 was paid as fees to the Company directors.

7. Payments to related entities of the entity and their associates	Current quarter \$USD'000
7.1 Aggregate amount of payments to these parties included in item 1.2	336
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

During quarter reimbursement payments totally to US\$336,000 were made to service entities associated with Neville Henry (the Managing Director of Winchester) for server and data room services and office operating services in the United states including rent and outgoings, and provision of labour. These services were provided on a cost reimbursement basis.

For personal use only

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$USD'000	Amount drawn at quarter end \$USD'000
8.1 Loan facilities	Nil	Nil
8.2 Credit standby arrangements	Nil	Nil
8.3 Other (please specify)	Nil	Nil
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

--

9. Estimated cash outflows for next quarter	\$USD'000
9.1 Exploration and evaluation	30
9.2 Development	100
9.3 Production	75
9.4 Staff costs	75
9.5 Administration and corporate costs	150
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	430

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	Nolan County, Texas, USA	Please refer to June 2018 quarterly Activities Report	17,402 net acres	17,402 net acres
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

For personal use only

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Company secretary)

Date: 31 July 2018

Print name: Lloyd Flint

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.