



ACN 168 586 445

QUARTERLY REPORT

For the period ended 31 December 2016

HIGHLIGHTS

Winchester Energy Ltd (**Winchester** or **Company**) recorded gross oil production (across all oil wells in which Winchester has a working interest) for the quarter ended December 2016 of 37,876 bo as shown below:

| Gross Oil Production (bo) | December Quarter 2016 | September Quarter 2016 | June Quarter 2016 | March Quarter 2016 | December Quarter 2015 |
|-------------------------------|-----------------------|------------------------|-------------------|--------------------|-----------------------|
| Oil Production (Gross 100%WI) | 37,876 | 35,428 | 26,159 | 26,761 | 19,774 |
| Oil Sales (Gross 100%WI) | 37,642 | 35,113 | 26,537 | 26,839 | 19,525 |

Note: These figures show gross oil production. 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.

- Revenue earned by Winchester during the quarter was US\$708,900 at an average sale price of US\$49.23 per bo.
- Following the completion of the fracking of White Hat vertical well 38#1, testing is continuing with the well currently producing water.
- Production from White Hat vertical well 38#2 has stabilised at between 30 and 40 bopd.
- On 27 December 2016 new vertical well White Hat 21#5 was spud on the White Hat ranch oil lease. The Company holds a 50% WI in White Hat 21#5 which is located 1,669 feet east of vertical well White Hat 21#4 which is currently producing 235 bopd. With a proposed total depth of 7,100 feet, White Hat 21#5 is targeting oil in the Ellenburger Formation.
- Importantly, on 1 March 2017, the existing agreement with current Operator CEGX will revert from the current 50%/50% WI arrangement to Winchester 75% WI/CEGX 25% WI in areas outside the presently drilled 40 acre drilling units. This will result therefore in Winchester taking operatorship of the 7,058 acres of the White Hat lease outside of the presently drilled 40 acre drilling units. CEGX will remain as operator of the eight current wells and their 40 acre drilling units (total of 320 acres).
- Post 1 March 2017 revenue per well drilled and operated by Winchester increases by 25% and as operator the Winchester technical team can apply new drilling and completion techniques to the exploration and development of the Ellenburger Formation.
- The Company's lease holding did not change during the December 2016 quarter and remains at 19,110 net acres.



OIL PRODUCTION SUMMARY

Total Oil Production

The following gross oil production for the December 2016 quarter (across all oil wells in which Winchester has a working interest) was recorded for the Company:

| Gross Oil Production (bo)* | December Quarter 2016 | September Quarter 2016 | June Quarter 2016 | March Quarter 2016 | December Quarter 2015 |
|--|-----------------------|------------------------|-------------------|--------------------|-----------------------|
| Oil Production (Gross 100%WI) | 37,876 | 35,428 | 26,159 | 26,761 | 19,774 |
| Oil Sales (Gross 100%WI) | 37,642 | 35,113 | 26,537 | 26,839 | 19,525 |
| Net Oil Production to Winchester (bo) (50% Working Interest)* | | | | | |
| Quarterly Oil Production (Net) | 18,938 | 17,714 | 13,080 | 13,380 | 9,887 |
| Quarterly Oil Sales (Net) | 18,821 | 17,556 | 13,269 | 13,420 | 9,763 |

* Please note that all production from the White Hat 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 pre-royalty.



Location of the Company's 19,110 net acres in Nolan County, Texas, USA



Adjusted Average per Well Oil Production

The following table represents adjusted average gross per well oil production per day for the December 2016 quarter:

| Per Well Oil Production Summary Adjusted Average BOPD December 2016 Quarter | | | | |
|--|--|------------|---|-----------------------------------|
| Oil Well | Adjusted Average Gross Oil Production Per Day (bopd) | WEL's WI % | Adjusted Average Net Oil Production to WEL (bopd) | Well Downtime ^A (days) |
| White Hat 20#1 | 16 bopd | 50% | 8 bopd | 10 |
| White Hat 20#2 ^B | 1 bopd | 50% | 0.5 bopd | 59 ^B |
| White Hat 21#1 | 142 bopd | 50% | 71 bopd | 10 |
| White Hat 21#2 | 37 bopd | 50% | 18.5 bopd | 9 |
| White Hat 21#4 | 235 bopd | 50% | 117.5 bopd | 2 |
| White Hat 38#2 ^C | 44 bopd | 50% | 22 bopd | 6 ^C |
| TOTAL | 480 bopd | 50% | 237.5 bopd | |

Note A: The number of days a well is not producing due to maintenance, weather or well workover.

Note B: Well 20#2 is producing at a very low rate (1 bopd) and was offline most of the December quarter.

Note C: Well 38#2 commenced production on 11 December 2016.

OPERATIONS SUMMARY

During the December 2016 quarter Winchester participated in drilling and completion activities at the White Hat lease located in the eastern shelf of the Permian Basin in central west Texas, USA. Winchester currently has a 50% working interest (**WI**) in 8 wells drilled to date by operator Carl E. Gungoll Exploration (**CEGX**) who holds the remaining 50% WI.

On 1 March 2017 the existing agreement with CEGX will revert from the current 50%/50% WI arrangement to Winchester 75% WI/CEGX 25% WI and this change will enable Winchester to take operatorship of the White Hat lease operations outside the eight currently producing 40 acre drilling units operated by CEGX where CEGX will continue as operator. This will be a positive development for the Company as revenue per well drilled after that date increases by an



additional 25% WI and, as operator, Winchester's technical team will be able to apply new drilling and completion techniques established by the industry over the past 11 years in its exploration and development of the Ellenburger and other oil reservoirs. Management believes that innovative drilling and completion techniques and minimising damage to the carbonate Ellenburger Formation, are keys to optimising oil production.

The Permian basin is an attractive environment in which to develop energy assets, with the average cost per vertical well (including completion) in the White Hat lease approximately US\$890,000 (i.e. US\$445,000 payable by Winchester at 50/50 WI). With operatorship reverting to Winchester next quarter there is potential for drilling costs to reduce further.

Update on White Hat 38#1 and 38#2 vertical wells

Subsequent to the end of the December 2016 quarter, the Company provided an update on White Hat wells 38#1 and 38#2. Both White Hat 38#1 and 38#2 wells intersected log-interpreted pay zones in the target Ellenburger Formation with comparable thickness and character to the existing five producing wells already drilled in the White Hat oil discovery.

The 38#1 well recovered oil at low rates of 70-100 barrels of total fluid per day at 5-20% oil cut during swabbing from two separate zones of the Ellenburger Formation. The 38#1 well was then fracture stimulated in an attempt to improve the production rate however pump production has only recovered water at high rates (300-400 bwpd). Micro seismic was used by Winchester to monitor the frack from the White Hat 38#2 well and that indicated the frack penetrated downwards into a deeper water bearing zone, near the base of the Ellenburger Formation. Pumping of 38#1 continues and CEGX is currently attempting to pump off the water in order to attempt to eventually bring the oil in. However, no oil has been recovered as yet.

The White Hat 38#2 well swabbed oil from three separate intervals in the Ellenburger Formation, with the upper interval producing 103 bopd (testing in daylight hours). After a pump was installed, the White Hat 38#2 well had high initial production rates but also emulsion problems. Oil production has now stabilized to between 30 and 40 bopd with only minor water production.

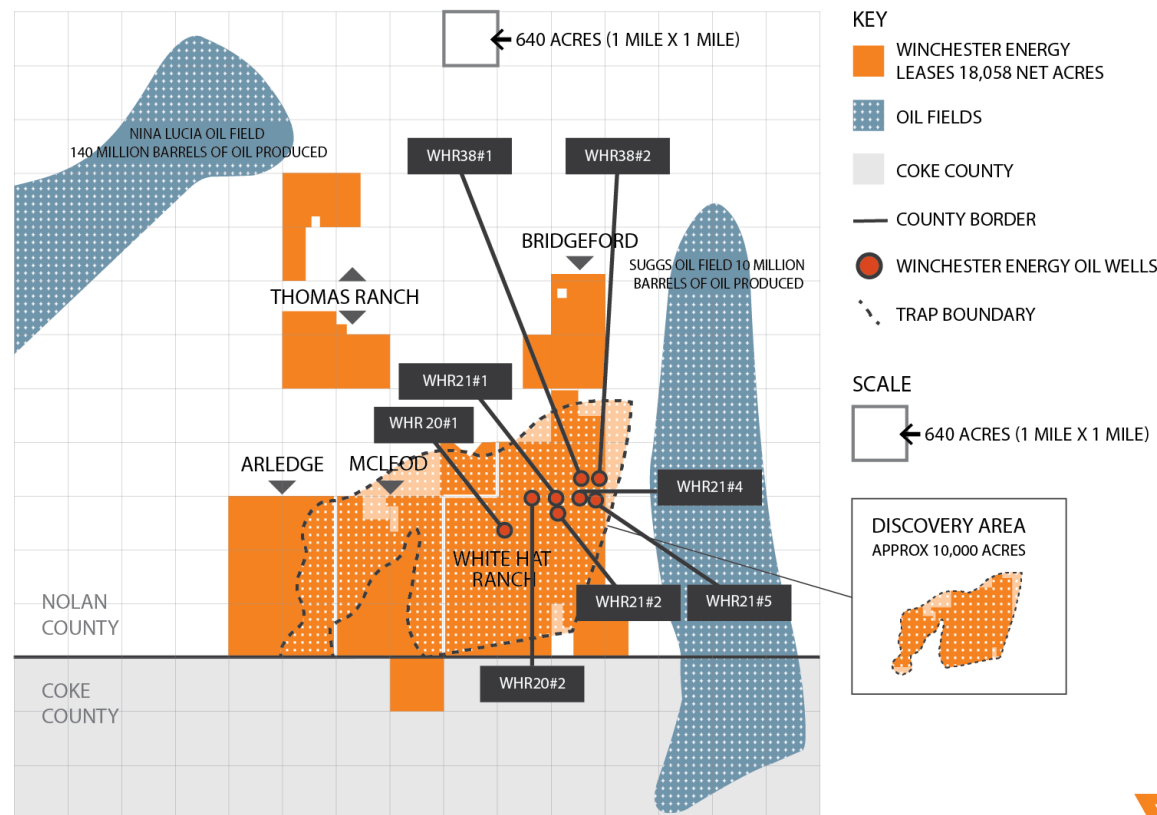
Spudding of White Hat Vertical Well 21#5

White Hat 21#5 was spud on 27 December 2016 and becomes the eighth vertical well on the White Hat oil lease. The White Hat 21#5 vertical well is located 1,669 feet directly east of the White Hat 21#4 vertical well which is currently producing 230 bopd. The primary target of White Hat vertical well 21#5 is oil in the Ellenburger Formation.

Proposed total depth (**TD**) of White Hat vertical well 21#5 is approximately 7,100 feet. Winchester will participate with a 50% WI in 21#5 with the operator CEGX also having a 50% WI.



10,000 ACRE OIL TRAP



COMPANY STRATEGY

Expansion of Oil Production Base

As demonstrated by the oil production summary tables above, Winchester is continuing to build its production and revenue base at the White Hat lease as the Company continues to increase its understanding of the Ellenburger reservoir.

As a function of Winchester's direct exposure to oil price fluctuations, recent increases in the oil price to over US\$50 per barrel has increased revenue to the Company. The immediate objective is to generate adequate cash revenue from oil production in order to fund future drilling operations from operating cash flow.

Winchester is an approved operator in Texas and anticipates operating both drilling and completion activities once the agreement with CEGX reverts on 1 March 2017 from its current 50/50 arrangement to a 75% WI for Winchester and 25% WI for CEGX. The Company expects to spud a series of wells in the White Hat lease over the course of the June 2017 quarter.



Technical Assessment

The Company has established an area of 10,000 acres where the Ellenburger Formation has been proven productive in several wells and is expected to be productive based on drilling results, new technologies and 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 the 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 rate of the White Hat 21 #4 well). 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 to be produced.

Constituting genuine upside to the White Hat lease is the existence of several other shallower intervals with future development potential. 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. Several of these formations already produce significant oil and gas from other acres within the Permian Basin. Given the current production and development focus on the Ellenburger reservoir, the Company has not yet conducted a detailed assessment of these intervals for production despite oil shows during drilling and known production potential. Winchester recognises the potential value these intervals represent and will look to evaluate and assess these zones in the future.



PLANNED ACTIVITIES – NEXT QUARTER

The planned activities for the quarter ending on 31 March 2017 are:

- Finalisation of completion and pumping activities on the White Hat 38#1 well in an attempt to stimulate oil production.
- Complete drilling of White Hat 21#5 with the possibility of further wells spudded as determined by the White Hat operator, CEGX.
- On March 1 2017, operatorship will revert to Winchester. Winchester plans to locate, design and spud wells immediately after this date.

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.

CORPORATE

The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately AUD\$3,254,000.

Total revenue for the quarter from oil sales was approximately AUD\$945,200. The increase in revenue from the September 2016 quarter is due to increased oil production as well as the recent higher oil price experienced through the December 2016 quarter.

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

| | |
|--|-------------------------|
| Cash (AUD\$0.75: USD\$1.00) | AUD \$3,254,000 |
| 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\$0.095 | AUD \$20,464,583 |
| Enterprise Value of the Company's assets | AUD\$17,210,583 |
| Founders, Board and Management (% ownership of the Company) | 19% |



LAND AND LEASE ACTIVITIES

The Company's lease holding is 19,110 net acres at the end of the December 2016 quarter.

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 leases cover the 10,000 acres that is currently identified as the trap area. However, additional oil and gas is likely to be trapped in both the Thomas and Bridgeford leases and several shallow productive intervals are expected to be potentially developed in due course.

Oil and Gas Leases Held as at 31 December 2016

The Company's lease holding at the end of the December 2016 quarter is 19,110 net 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 | - | - | - |

Working Interest (WI) in Wells as at 31 December 2016

| Well | Well unit area (acres) | % WI | Location |
|----------------|------------------------|------|-----------------|
| White Hat 21#5 | 40 | 50% | White Hat Lease |
| White Hat 38#2 | 40 | 50% | White Hat Lease |
| White Hat 38#1 | 40 | 50% | White Hat Lease |



| | | | |
|-----------------|-----|-----|-----------------|
| White Hat 21 #4 | 40 | 50% | White Hat Lease |
| White Hat 20#1 | 40 | 50% | White Hat Lease |
| White Hat 21 #1 | 40 | 50% | White Hat Lease |
| White Hat 21 #2 | 40 | 50% | White Hat Lease |
| White Hat 20#2 | 40 | 50% | White Hat Lease |
| Thomas 119-1H | 240 | 50% | Thomas Lease |

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. |
| 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 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.