



ACN 168 586 445

QUARTERLY REPORT

For the period ended 31 March 2017

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 March 2017 of 28,633 barrels of oil (**bo**) as shown in the table below:

Gross Oil Production (bo)	March Quarter 2017	December Quarter 2016	September Quarter 2016	June Quarter 2016	March Quarter 2016
Oil Production (Gross 100%WI)	28,633	37,876	35,428	26,159	26,761
Oil Sales (Gross 100%WI)	28,467	37,642	35,113	26,537	26,839

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 (for oil and gas sold during the quarter) was US\$572,086. Total oil revenue was US\$540,567 and total gas sales revenue was US\$31,519. The average sale price per bo was US\$49.64.
- Subsequent to the end of the quarter, the Company announced oil production of 200 bopd from a sand unit within the Strawn Formation in the previously drilled White Hat 20#2 well. This is a significant oil production rate and if sustained, will represent a significant new oil discovery which could potentially be targeted for development drilling in its own right.
- To date, Winchester has focussed on drilling and producing oil and gas from its deeper Ellenburger Formation discovery however the recent result in the White Hat 20#2 well demonstrates the potential for oil in a number of shallower reservoirs.
- On 9 March 2017, the White Hat 21#5 well (spud on 27 December 2016) produced 150 bopd. Subsequently the oil production rate decreased to 25-40 bopd. The operator has indicated it will employ specialist designed chemical treatments to improve production from the well.
- On 1 March 2017, the existing agreement with Carl E Gungoll Exploration (**CEGX**) reverted from a 50%/50% working interest (**WI**) arrangement to Winchester 75% WI/CEGX 25% WI in all areas outside the eight currently drilled 40 acre drilling units. Accordingly, Winchester is now operator of the 7,058 acres of the White Hat ranch oil and gas lease outside of the eight currently drilled 40 acre drilling units (320 acres in total).
- The Company's lease holding did not change during the March 2017 quarter and remains at 19,110 net acres.



OIL PRODUCTION SUMMARY

Total Oil Production

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

Gross Oil Production (bo)*	March Quarter 2017	December Quarter 2016	September Quarter 2016	June Quarter 2016	March Quarter 2016
Oil Production (Gross 100%WI)	28,633	37,876	35,428	26,159	26,761
Oil Sales (Gross 100%WI)	28,467	37,642	35,113	26,537	26,839
Net Oil Production to Winchester (bo) (50% Working Interest)*					
Quarterly Oil Production (Net)	14,316	18,938	17,714	13,080	13,380
Quarterly Oil Sales (Net)	14,233	18,821	17,556	13,269	13,420

* 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 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 March 2017 quarter:

Per Well Oil Production Summary Adjusted Average BOPD March 2017 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	15 bopd	50%	7.5 bopd	23
White Hat 20#2 ^B	15 bopd	50%	7.5 bopd	Note B
White Hat 21#1	74 bopd	50%	37 bopd	6
White Hat 21#2	18 bopd	50%	9 bopd	2
White Hat 21#4	193 bopd	50%	96.5 bopd	5
White Hat 38#2	26 bopd	50%	13 bopd	2
White Hat 21#5 ^C	52 bopd	50%	26 bopd	2 ^C
TOTAL	393 bopd	50%	196.5 bopd	

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

Note B: White Hat well 20#2 was completed up-hole in a sand unit within the Strawn Formation beginning 25 March 2017 and only produced during testing for a few days at the end of the quarter. As per ASX announcement of 19 April 2017 this well initially flowed at 200 bopd.

Note C: Well 21#5 commenced production on 5 March 2017.

The reduced production from the December 2016 quarter is a result of down-hole scaling primarily at wells 21#1 and 21#4 along with weather and mechanical downtime. The Company suspects that 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 operator, CEGX, is currently using specialist designed chemical treatments to improve production from the White Hat wells.



OPERATIONS SUMMARY

During the March 2017 quarter Winchester participated in drilling and completion activities at 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 eight wells drilled to date by the operator, CEGX, who holds the remaining 50% WI in these 8 wells.

On 1 March 2017 the agreement with CEGX reverted from a 50%/50% WI arrangement to Winchester 75% WI/CEGX 25% WI. Winchester has also taken operatorship of the White Hat ranch lease operations outside the eight 40 acre drilling units operated by CEGX where CEGX will continue as operator.

This is a significant development for the Company as revenue per well drilled after 1 March 2017 will increase by 25% and, as operator, Winchester's technical team will be able to apply new drilling and completion techniques in its exploration and development of the Ellenburger Formation as well as other stacked pay targets (such as the recent successful completion in a sand unit in the Strawn Formation in the White Hat 20#2 well).

The Permian Basin in Texas is an attractive environment in which to develop energy assets, with the average cost per vertical well targeting the Ellenburger Formation (including completion) approximately US\$890,000. This cost will reduce should the Company choose to target shallower oil bearing formations such as the recent successful completion in a sand unit in the Strawn Formation in the White Hat 20#2 well. With operatorship now with Winchester, there is potential for drilling costs to reduce further.

White Hat 20#2 produces 200bopd from the Strawn Formation

The White Hat 20#2 vertical well 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 (see map below).

Initial testing of the upper Ellenburger Formation in White Hat 20#2 yielded low rates of oil. Following this initial testing, the White Hat 20#2 well was fracked on 7 April 2016 in an attempt to achieve greater oil production. However following fracking, the well produced oil at very low rates of 1-2 bopd.

Whilst drilling down to the Ellenburger Formation in White Hat 20#2, promising oil and gas shows were obtained in several zones above the Ellenburger Formation. Several formations were interpreted by Winchester to be worthy of testing and 30 feet of the sand unit within the Strawn Formation was agreed with CEGX to be the first to be tested.



On 19 April 2017 the Company announced that oil was being produced on pump at a rate of 200 bopd from a sand unit in the Strawn Formation in the White Hat 20#2 well.

This is a significant oil production rate and if maintained, will represent a significant new oil discovery in the very first test of this sand unit within the Strawn Formation by Winchester and CEGX in their White Hat ranch oil and gas lease.

The interval currently producing from the White Hat 20#2 well is a clastic sand play that is deposited on the basin ward shelf margin in the Strawn Formation. These sands occur at several stratigraphic levels and have produced significant oil from stratigraphic traps in the nearby Suggs Oil Field and White Hat ranch area and beyond and have been labelled or referred to as Fry, Gardner, Lazarus, Jennings Lime, and Goen sand units. They are commonly calcareous and grade into limestone.

To date, Winchester has focussed on drilling and producing oil and gas from its deeper Ellenburger Formation discovery but from the founding of the Company, it has recognised the potential for oil in a number of shallower reservoirs ("**stacked pays**"), including the Strawn Formation. Importantly, the prolific oil producing Strawn Formation is expected to occur within Winchester's 19,110 net acres in Nolan County, Texas, USA.

This significant new oil discovery in the Strawn Formation represents a new valuable oil play across Winchester's 19,110 net acres. It represents a new target in its own right for Winchester and the Company is now looking at potential offset opportunities for this significant new oil discovery.

Results from White Hat Vertical Well 21#5

White Hat 21#5 was spud on 27 December 2016 and is located 1,669 feet directly east of the successful White Hat 21#4 vertical well. The primary target of White Hat vertical well 21#5 was oil in the Ellenburger Formation.

The well produced an average of 87 bopd and recovered all the load water during the first week of production. On 9 March 2017, the White Hat 21#5 well produced 150 bopd. Subsequently, the White Hat 21#5 oil production rate decreased to 25-40 bopd. The operator is looking into causes for the sudden production drop, including possible chemical plugging.

The well is presently not producing any water. The operator, CEGX, has indicated it will employ specialist designed chemical treatments to improve production similar to that applied to both White Hat 20#1 and White Hat 21#2 wells, where both wells experienced significantly increased oil production rates after dissolution of downhole chemical precipitates that were impeding migration of oil into the well bore.



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

During the 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.

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. 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.

White Hat well 38#1 is currently not producing oil and discussions have commenced with CEGX regarding the potential to perforate and test the shallower intervals identified in White Hat 38#1 that demonstrated oil production potential during drilling (oil shows) and subsequent assessment of logs and seismic data.

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 has shown evidence of emulsion problems. Oil production has now stabilized to between 20 and 30 bopd with only minor water production.

COMPANY STRATEGY

Expansion of Oil Production Base and Investigation of Stacked Pay

As demonstrated by the oil production summary tabled above, Winchester derives significant 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 continues to increase its understanding of the Ellenburger reservoir and now, in light of the significant discovery in the White Hat 20#2 well, is investing time and expertise in understanding the opportunities now presented by the overlying oil-bearing formations.

To date, Winchester has focussed on drilling and producing oil and gas from its deeper Ellenburger Formation discovery but there is potential for oil in a number of shallower reservoirs ("**stacked pays**"), including within the Strawn Formation.

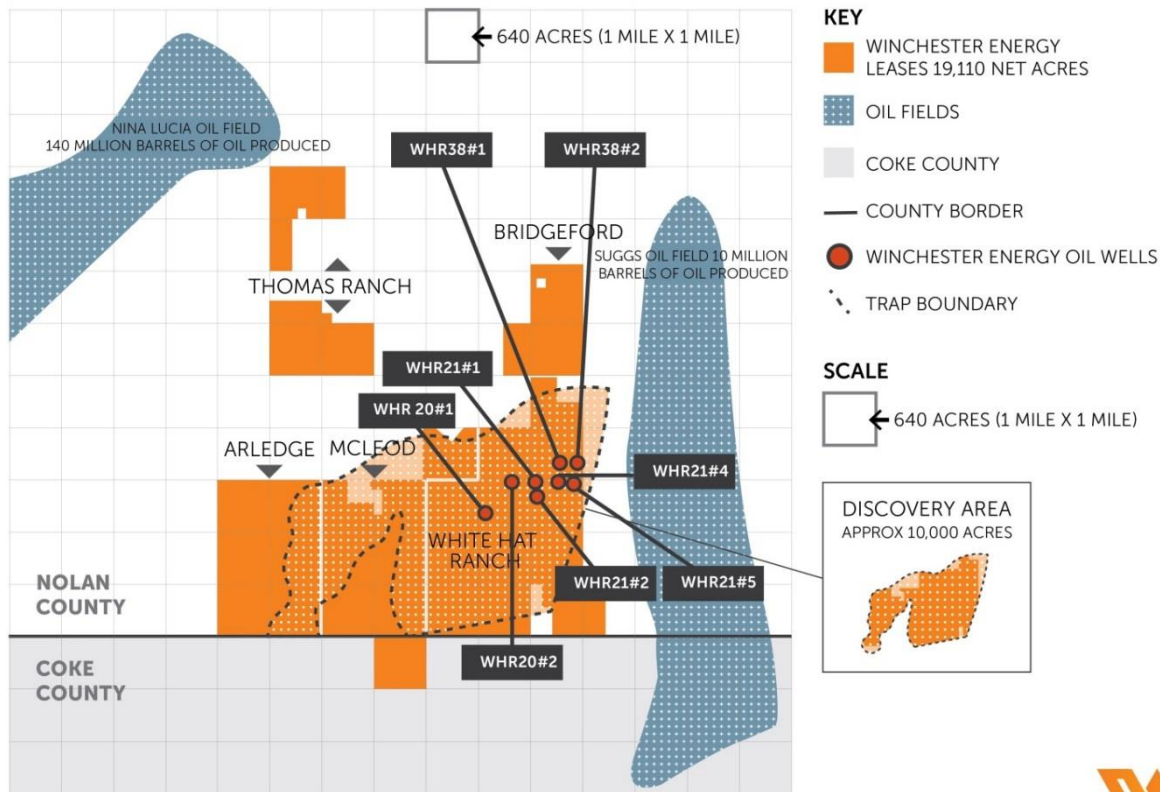


Importantly, the prolific oil producing Strawn Formation is expected to occur within Winchester's 19,110 net acres in Nolan County, Texas, USA, representing a significant new oil play across Winchester's land position.

Technical Assessment - Continued Development of the Ellenburger – 10,000 Acre Trap Identified

The Company has established an area of 10,000 acres (see map below) 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 drilling results, new technologies and 3D seismic interpretations.

10,000 ACRE OIL TRAP



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.



Winchester's technical team believes its Ellenburger play will have similar characteristics to the Suggs Oil Field and that utilising modern techniques to improve well productivity will significantly enhance field economics.

The Company has signed a letter of intent 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 Formation has been shown to have highly variable porosity due to multi staged, post depositional mineralization effects on the reservoir and Winchester has already experienced these variations over short distances between the eight wells drilled to date. The current estimated cost to drill and complete an ultra-short radius lateral well of this kind is US\$1.6 million and the current cost to drill and complete a vertical well is US\$890,000.

Stacked Pay Opportunities

There also exists within the White Hat ranch oil and gas lease several other shallower intervals with future development potential. This has become particularly significant given the 200 bopd initial 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 high total organic carbon 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 19,110 net acres. Several of these formations have already produce significant oil and gas from Nolan County and other areas within the Permian Basin.

The Company is currently conducting a detailed assessment of these intervals for production given oil shows during drilling across all eight wells operated by CEGX as well as known production potential. Winchester recognises the potential value these intervals represent and will look to evaluate and assess these zones in the future.

The Company's experienced and successful technical team has assembled a wealth of proprietary technical information on producing reservoirs along the Eastern Shelf of the Permian Basin. The Company has access to significant intellectual property that includes improved recovery techniques (IRT), reservoir permeability and fracture analyses and technologies identified to lower the costs of drilling and improve the productivity of wells. The Company intends to evaluate these improved recovery technologies over the next six months with the objective of unlocking the considerable volume of oil that remains trapped and unrecovered in several formations on the Eastern Shelf including the Ellenburger Formation.



PLANNED ACTIVITIES – NEXT QUARTER

The planned activities for the quarter ending June 2017 are:

- With Winchester as operator - design, locate and commence drilling one well utilizing ultra-short radius lateral technology (dependent on log analysis and assessment of the drilling).
- 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 (such as White Hat 38# 1) and/or drilling new wells.
- Improve existing production through the implementation of chemical treatment programs across the 8 existing vertical wells operated by CEGX.

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\$2,385,000.

Total revenue for the quarter from oil and gas sales was USD\$572,086 (AUD\$756,640).

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

Cash (AUD\$0.75: USD\$1.00)	AUD \$2,385,000
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\$0.09	AUD \$19,387,500
Enterprise Value of the Company's assets	AUD\$17,002,500
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 March 2017 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 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 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 March 2017

The Company's lease holding at the end of the March 2017 quarter is 19,110 net acres. The Company's lease holding did not change during the quarter.

	% 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 March 2017

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 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.