



## Drilling Activity Update Permian Basin, Texas, USA

### Chairman's Letter,

Dear Shareholder,

We all had high expectations that our first horizontal drilling in fractured Ellenburger formation to prove that multiples of oil flow rates over the traditional vertical well could be achieved. We were partially successful. This disappointment has been reflected in the current share price.

However, we were successful in proving the engineering concept that we could drill lateral horizontal wells in this formation from a re-entered vertical well bore. Unfortunately, as we found out, due to the uncertainty of the area of oil drainage from fractured carbonates, the vertical 38#3ML well was sited too close to an adjacent oil field and the horizontal leg drilled into a depleted oil reservoir.

So the proof that horizontal wells in a fractured Ellenburger oil zone can achieve multiples of flow rates remains what I call 'unfinished business'.

I can report that the next horizontal leg will be drilled from the vertical 39#1 well, commencing at the end of May. This well is testing the Ellenburger oil zone a considerable way away from any known significant Ellenburger oil production. So we can be confident our horizontal well will be drilling fractured Ellenburger formation in a 'virgin' reservoir pressure zone. If this is the case, as horizontal wells in the Permian Basin are known to produce at multiple rates compared to a vertical well, we have high expectations that this will occur. In this event, horizontal drilling will be applied to other producing zones in your company's leasehold with the aim of achieving higher oil production rates.

As detailed in the following report, in almost every well Winchester has drilled in its leasehold, multiple shallow formations above the Ellenburger have reported interpreted oil pay with proven oil production potential. In addition to the horizontal well being drilled, work will be carried out on several wells with the aim to add oil production to surpass previous production highs.

I believe we are entering an exciting period of activity for shareholders over the next three months continuing through to the end of the year. As your Chairman and a shareholder, I look forward to the results of the drilling and well activity ahead. I and the Board thank you for your support.

Yours sincerely,

A handwritten signature in blue ink that reads 'John T. Kopcheff'.

John T. Kopcheff  
Non- Executive Chairman



Winchester is pleased to provide an update on its forthcoming well activities in its East Permian Basin acreage.

## Highlights

- **A very busy drilling and completion schedule planned over the ensuing months will see Winchester participate in:**
  - **one lateral well in the Ellenburger Formation commencing end May 2018; and**
  - **Re-completions in four separate pre-existing wells in the productive Fry/Strawn and Ellenburger Formations.**
- **All work will be funded from a combination of existing oil and gas revenue, working capital and farmout partners.**
- **The five well program is designed to greatly enhance oil production during the existing higher oil price environment beyond the current 177 barrels of oil per day.**

## Activity Update Report

At the end of May 2018, Winchester will commence drilling a single horizontal lateral in existing vertical well White Hat 39#1. The lateral is targeting a distinct series of fractures in the Ellenburger Formation identified by detailed seismic analysis. Good oil shows were recorded in this well in the Ellenburger whilst drilling the vertical component, subsequently verified by wireline log interpretation.

Successful drilling and completion of the Ellenburger lateral is expected to generate greatly enhanced production from the prolific Ellenburger Formation. This increased production is expected to occur from increased exposure of the horizontal well bore to the interpreted fracture sets present in the surrounding formation.

In addition to the drilling of the 39#1 horizontal leg, Winchester has identified four existing vertical wells for oil production enhancement by re-completion. Three wells are targeting the producing Fry/Strawn Formation (sands) overlying the Ellenburger and one well, a reworking in the Ellenburger Formation.

Re-completion of these four wells represents a highly cost-effective method to increase oil and gas production from existing vertical wells in which Winchester has a significant working interest ranging from 45% to 78.5%.

All of Winchester's wells targeting the Ellenburger Formation to date have encountered shallow zones with varying oil production potential. In April 2017, Winchester announced initial production rates of 200 bopd from the Fry/Strawn Formation completion in the White Hat 20#2 well.



An initial test of the oil producing potential of the Strawn Formation in the vertical section of White Hat Ranch 38#3ML prior to fracking is part of this program.

US Energy has confirmed that preparations for the initial testing and fracking of the Wolfcamp Shale in an existing well in the Bridgford lease is in progress. Winchester considers a positive result would increase the value of Winchester's extensive surrounding acreage.

The drilling and completion activity outlined above is designed to significantly increase Winchester's oil and gas production profile during the current elevated oil price environment.

In addition, Winchester is in the final technical reviews for Arledge and McLeod lease commitment drilling operations which are scheduled for July. US Energy is reviewing participation in these operations.

The general location and planned timing of these forthcoming well activities are provided in the attached map and drilling schedule.

Managing Director of Winchester, Mr. Neville Henry, commented:

*"Winchester has formulated an intensive work program for the next three months which will include the drilling and testing of one horizontal lateral in the Ellenburger in an existing vertical well as well as four re-completions within proven oil-bearing sands overlying the Ellenburger and in the Ellenburger itself."*

*The lateral drilling and re-completion work program is very cost-effective given the vertical components of the wells have already been drilled, meaning that all costs related to the forthcoming well activity will be covered by existing oil revenues, existing cash and contributions from farm-in partners.*

*The next three months represent an exciting time for the Company as we aim with success to double our net oil production and capitalise on our low production costs at a time of buoyant oil prices and rejuvenated interest in the oil sector."*

#### **About Winchester Energy Ltd (ASX Code: WEL)**

Winchester Energy Ltd (ASX Code: WEL) is an Australian ASX listed energy company with its operations base in Houston, Texas. The Company has a single focus on oil exploration, development and production in the Permian Basin of Texas. The Company has established initial oil production on its large 17,402 net acres leasehold position on the eastern shelf of the Permian Basin, the largest oil producing basin in the USA. Winchester's lease position is situated between proven significant oil fields. Winchester is of the view that with the several known oil productive horizons in its lease holding, that it can build through the application of modern geology, 3D geophysical analysis, drilling and completion methods, a potentially significant proven reserves and oil production asset.

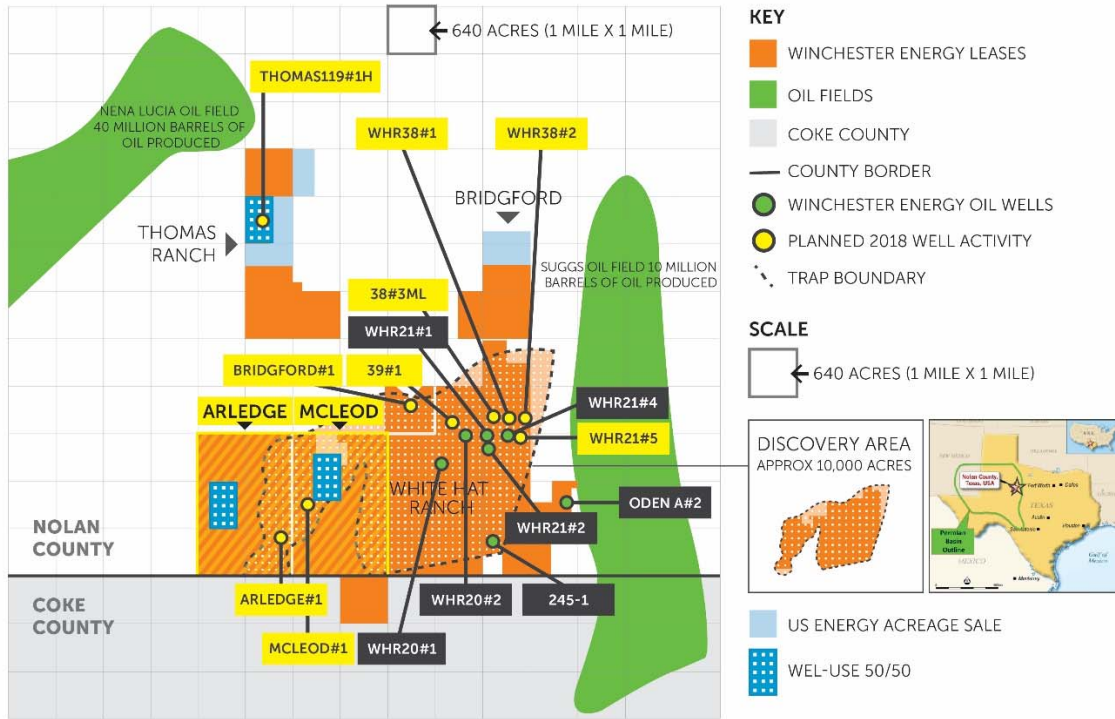
#### **Competent Person's Statement**

*The information in this ASX announcement 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.*



# WINCHESTER

ENERGY LIMITED



## 2018 Planned Drilling Schedule



PERMIAN BASIN WINCHESTER	Well Interest	2018									
		May	June	July	August	September	October	November	December		
White Hat Ranch - 39#1 Horizontal - Ellenburger 39#1 Fry/Strawn	60.0% 45.0%										
White Hat Ranch 38#3ML Completion Test Fry/Strawn	78.5%										
White Hat Ranch - 38#2 Ellenburger Workover	50.0%										
Bridgford - # 1 US Energy Wolfcamp Shale Test	1.0%										
White Hat Ranch - 21#5 Recompletions Strawn	50.0%										
White Hat Ranch - 38#1 Recompletions Strawn	50.0%										
Mcleod - # 1 Vertical - Elbg/Strawn/Cisco	50.0%										
White Hat Ranch 38#3ML Fry/Strawn Recompletion	78.5%										
Arledge - # 2 ML Vertical - Elbg/Strawn/Cisco	50.0%										
Thomas Ranch Recompletion	83.5%										
White Hat Ranch Ellenburger Lateral	50.0%										

**LEGEND**

- Horizontal Drilling
- Vertical Drilling
- Recompletion
- Production Testing

(Note: All well timing and well interests subject to rig availability, funding and farmout)