



## Low Cost Oil Production Permian Basin, Texas

### HIGHLIGHTS

**Date:** 11 June 2020

**ASX Code:** WEL

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Non-Executive Chairman

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- Winchester seeing oil prices improving and promising evidence of a possible “V” shaped oil recovery.
- To preserve operating capital Winchester has reduced oil production operating costs (“OPEX” or “lifting costs”) to US\$2.46/barrel<sup>1</sup> and considerable effort has been undertaken to manage and balance its costs and revenues.
- Oil sales were strategically deferred as of May 15, 2020, through on-site storage, until June 2020. This realised an estimated increase of US\$15 per barrel in oil sales revenue for May 15-31, 2020 production which had averaged 222 net barrels of oil per day (bopd), and gross 303 bopd.
- With the potential of a sustained improvement in oil prices, Winchester is turning its focus to future growth and is preparing to execute several low-cost re-completions of existing wells to augment existing production in the Mustang Field area.
- Future operational planning includes completions of new pay zones in several other wells, potentially followed by additional drilling to expand existing production and subject to improved and sustained commodity prices, further exploration drilling.
- Winchester is also reviewing several new project/play opportunities made possible by the low oil price environment.

Following a programme of rationalisation of existing production operations, Winchester Energy Limited (Winchester; ASX:WEL) is pleased to provide an update of its operating status regarding its 17,560 acre position in Nolan County in the Permian Basin, Texas.

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<sup>1</sup> Based on the average OPEX cost for WEL's three most recently drilled Mustang Field producing wells: White Hat 2003, 2005 and 2006 (WEL WI 75%).

Note: Well nomenclature has changed from previous releases and announcements due to US compliance requirements with the “#” sign replaced by “0”.

### Lifting Costs (OPEX)

The location of Winchester's acreage in the productive Eastern Shelf of the Basin, allows for relatively inexpensive, shallow drilling and production and almost immediate conversion from production to sales revenues.

During the current Covid 19 crisis and this recent oil price collapse, Winchester took early steps to increase efficiency, preserve revenue, reduce operations costs and reduce overheads. These actions have bolstered the company's viability in a low-price environment.

Winchester has reduced its lifting costs significantly at its main producing wells - White Hat 2003, 2005 and 2006 - to US\$2.46 per barrel. This is 50% below the average lifting cost of the Parsley Peer Group<sup>2</sup> as shown in Figure 1. Winchester is the operator and has a 75% working interest (WI) in White Hat 2003, 2005 and 2006.

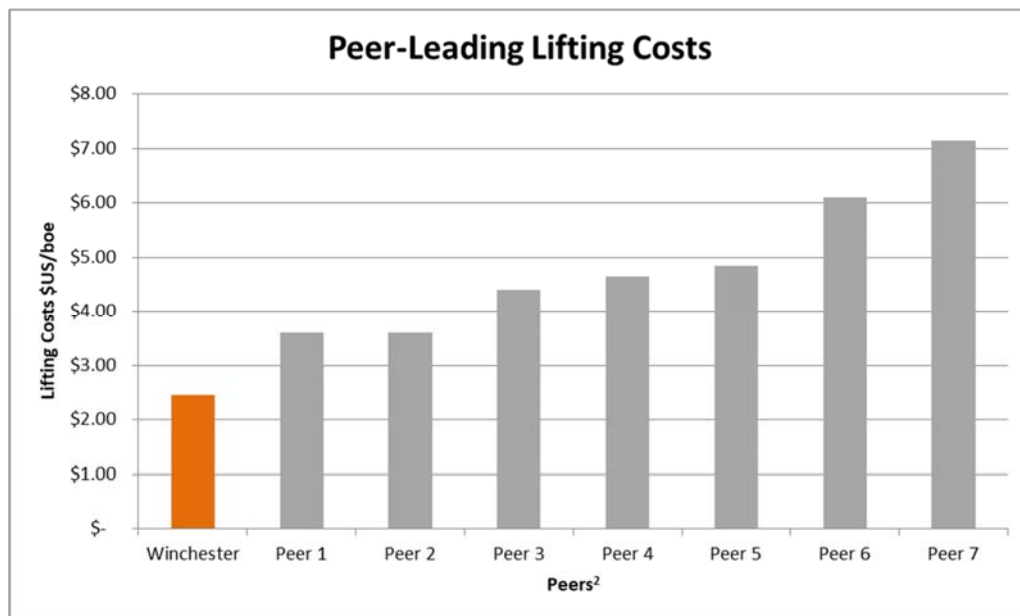


Figure 1. Permian Basin Lifting Costs (Data Source: Parsley Energy Presentation – Goldman Sachs Global Energy Conference, Jan 2020).

(Lifting Costs, or operating expenses (OPEX), include all direct costs to produce oil from wells. A comprehensive list of individual cost items included in Lifting Costs is provided in Appendix 1.)

### Development Costs (Drilling and Completion)

Development Costs are essentially the costs to drill, complete (perforate/fracture stimulate) and bring wells online for production (facility and tie-in). It is, at a minimum, the cost to take Reserves from the proved undeveloped (1P - PUD) category to the proved developed producing (1P – PDP) category.

<sup>2</sup> Peers include PE, CDEV, CXO, FANG, LPI, MTD, PXD (all Permian Basin operators)

In line with recent efficiency and cost reduction measures, Winchester has driven a 23% reduction in development costs. Figure 2 illustrates the relative change of development costs in recent drilling, culminating in the White Hat 2006 well (completed March 2020).

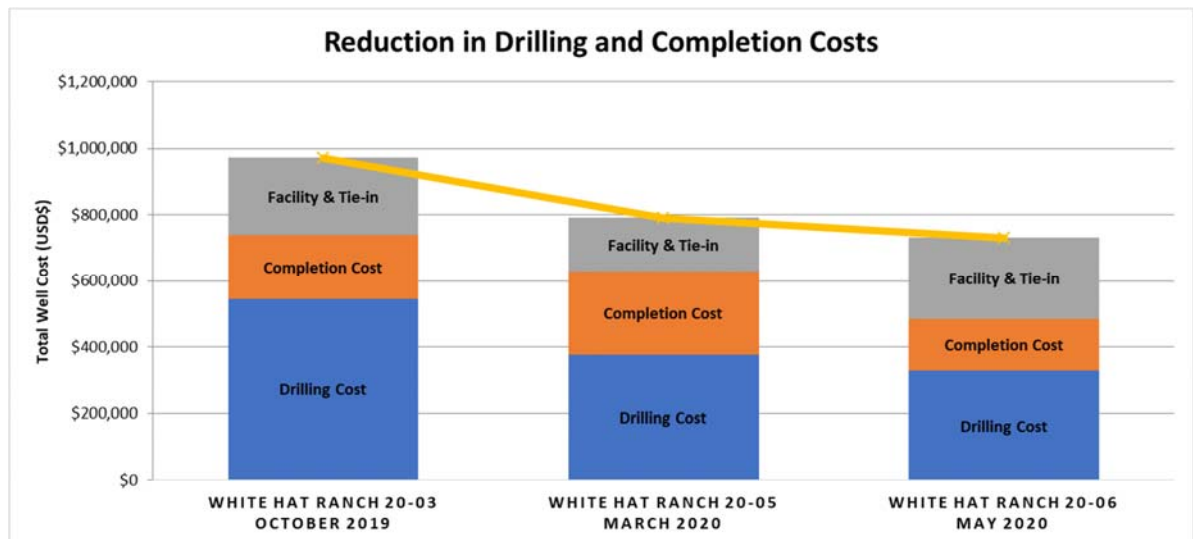


Figure 2: Reduction in Development Costs - WEL Operated Wells

Winchester's Development Costs are US\$10.51/barrel of oil equivalent (boe)<sup>3</sup> reflecting the high quality nature and commerciality of Winchester's acreage as well as the advantage of developing shallow conventional sand-dominated opportunities over more complex horizontal-drilling shale plays.

### Production Flexibility

During the severe drop in West Texas Intermediate (WTI) oil prices, the Company took the prudent step (on May 15, 2020) of storing all production in temporary on-site storage facilities at its various wells. Winchester then resumed oil sales on 1 June 2020, taking advantage of the rebound in oil prices and reduction of differentials. The improvement in differentials was almost US\$8 per barrel between May and June 2020 and WTI July contract was over US\$37.92 as at 5 June. This action is expected to net an additional US\$15 per barrel revenue for the Company for its May 15-31, 2020 production, which averaged 222 bopd net to Winchester WI.

### Forthcoming Work

Oil prices are recovering from recent lows. Winchester believes this trend should continue over the coming months due to the world wide reduction in oil production and increasing demand as economies around the world recover from Covid 19.

<sup>3</sup> One boe is equal to six thousand cubic feet of gas on an energy basis.



As Winchester believes price recovery may be sustained, the Company is turning its attention to future growth. Planning is well advanced for a number of low-cost re-completions of existing wells to augment existing production. Details and work schedules will be released in due course.

In addition, the recent pause of drilling activities has allowed the Winchester technical team to review and assess several new project/play opportunities made available by the low oil price environment. Winchester is progressing several discussions and will inform the market if and when any transaction is completed.

Winchester's Managing Director Neville Henry commented:

*"I am encouraged by the recent rebound in oil prices and also the support we have received in the market. As a company, we took early charge by focusing on reducing expenditures back in February and March 2020. This has assisted us to preserve working capital.*

*"In addition to preserving capital, postponement of new drilling and completion operations at this time reduces production of our resource base that is undervalued in the short term, This preserves our best options for Winchester future, low risk investment as oil prices recover.*

*"Winchester has no debt and has reduced its overhead budget by some 28.5% and has targeted 25% cost reductions in our field operations. Now we have some of the lowest lifting costs amongst our peers as we continue to carefully balance expenditures and sales to maintain an optimal cash flow.*

*"On 25 May 2020, we published to the ASX a Reserves and Resources update which showed a 49% increase in our net Resources, which in turn contributed to Winchester's total net Reserves and Resources of 11.2 million barrels of oil equivalent<sup>4</sup>. With our strong prospect base and multiple wells with behind-pipe completion options, Winchester is well positioned to further develop and execute its strong growth plans as oil prices continue to recover. This growth programme will focus on low cost recompletions to augment existing production in the Mustang Field area, and then, on new drilling and further exploration and potential project expansion."*

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<sup>4</sup> Independent audit estimates total Reserves and Resources net to Winchester as of 31 December 2019 of 11.2 million barrels of oil equivalent (mmboe) comprising: **3P Reserves of 1.65 mmboe; Contingent Resources ('Best Estimates') of 6.72 mmboe; and Prospective Resources<sup>5</sup> ('Best Estimates') of 2.82 mmboe.** 25 May 2020 ASX release.

**Cautionary Statement:** The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable Hydrocarbons.

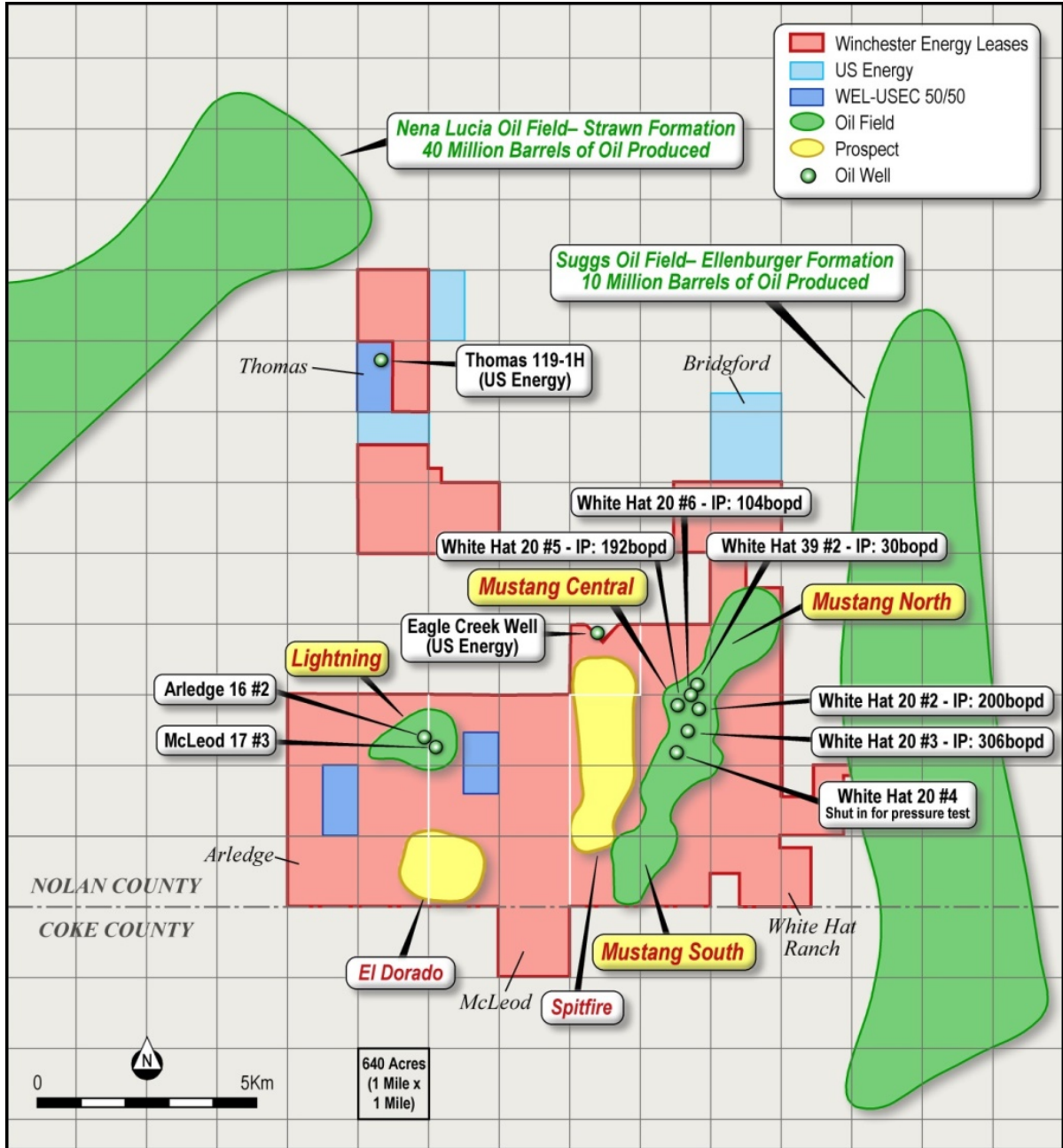


Figure 3. Winchester Energy Lease Map



Authorised for release by:

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#### 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 17,560 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 has discovered new oil fields and identified several prospects across its leasehold. It is currently undertaking development work at the newly discovered Mustang Oil Field.

#### **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.*



## APPENDIX 1 – Lifting Costs (OPEX)

Lifting Costs include the following:

- Chemical & Solvents
  - Contract Labor
  - Electricity-Fuel-Power
  - Engineering
  - Rentals
  - Hot Oil Treatments
  - Location & Roads
  - Materials & Supplies
  - Pump Truck
  - Pumper / Gauger
  - Repair & Maintenance
  - Salt Water Disposal
  - Testing/Inspection
  - Vacuum Truck
  - Waste Disposal
  - Welding
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