



ACN 168 586 445

## QUARTERLY REPORT

For the period ended 30 June 2016

## HIGHLIGHTS

- **White Hat 21#4 (Winchester:50%WI):** The White Hat 21#4 vertical well reached a total depth (TD) of 7,042 feet on 16 June 2016. The well encountered substantial log pay and oil and gas shows. In the past 2 weeks a completion rig was used to test the well and production equipment is currently being installed.
- **White Hat 21#1 (Winchester:50%WI):** The most recent 30 day average for the well was at a production rate of 234 barrels of oil per day (BOPD) and 161 MCFPD of gas. The well has produced 62,949 barrels of oil (bo) from inception through to 30 June 2016. It has yet to commence to decline in oil production. At current rates this well continues to be one of the best producing wells in Nolan County, Texas, USA.
- **White Hat 20#1 (Winchester:50%WI):** A chemical treatment was designed to treat additional scale and bacteria build-up and the well bore was successfully treated down the back side of the tubing on 7 July 2016. The well was placed back on production immediately with the result being an increase in oil production from 14 BOPD to a range of production between 20-50 BOPD.
- **White Hat 21#2 (Winchester:50%WI):** The White Hat 21#2 well spudded on 20 October 2015 to offset White Hat 21#1 to the south. It continues to produce at a low decline rate with average daily production of 43 BOPD over the quarter through to 30 June 2016.
- **White Hat Gross Production:** The gross production of the 5 vertical wells situated on the White Hat Lease is 79,847 barrels of oil from inception through to 30 June 2016. The three producing oil wells on the White Hat Ranch lease averaged gross production during the quarter of 287 BOPD. Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.
- **10,000 Acre Discovery Trap:** With the 5 White Hat lease wells drilled and the accumulated data sets now interpreted, the Company's technical team has established an oil producing area in the Ellenburger Formation of approximately 10,000 acres where initial production rates of between 50 and 300 BOPD from vertical wells is expected. The current lease rules provide for 40 acre spacing between wells.
- **Total Lease Holdings (18,058 Net Acres):** There was an increase of 322 net acres during the quarter. Winchester now has 18,058 net acres of oil and gas leases.



## CORPORATE

The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately AUD\$6,075,000. Approximately 75% of all cash is held in USD. The capital structure of the Company at the end of the quarter was as follows:

Cash (AUD\$0.75: USD\$1.00)	AUD \$6,075,000
Total shares on issue	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\$0.07	AUD \$15,079,167
Enterprise Value of the Company's assets	AUD \$9,004,167
Founders, Board and Management (% ownership of the Company)	19%

## OIL PRODUCTION

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

Gross Oil Production (bo)	June Quarter 2016	March Quarter 2016	December Quarter 2015	June Quarter 2015	March Quarter 2015
Oil Production (Gross 100%WI) <sup>1</sup>	26,159	26,761	19,774	2,322	267
Oil Sales (Gross 100%WI) <sup>1</sup>	26,537	26,839	19,525	2,298	353

*Note 1: These figures show gross oil production from all wells and is pre-royalty. Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.*

Net Oil Production to Winchester (bo)	June Quarter 2016	March Quarter 2016	December Quarter 2015	June Quarter 2015	March Quarter 2015
Quarterly Oil Production (Net) <sup>1</sup>	13,080	13,380	9,887	1,161	134
Quarterly Oil Sales (Net) <sup>1</sup>	13,269	13,420	9,763	1,149	177

*Note 1: These figures show net oil production from all wells and is pre-royalty. Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.*



## EXPLORATION AND OPERATIONS ACTIVITIES

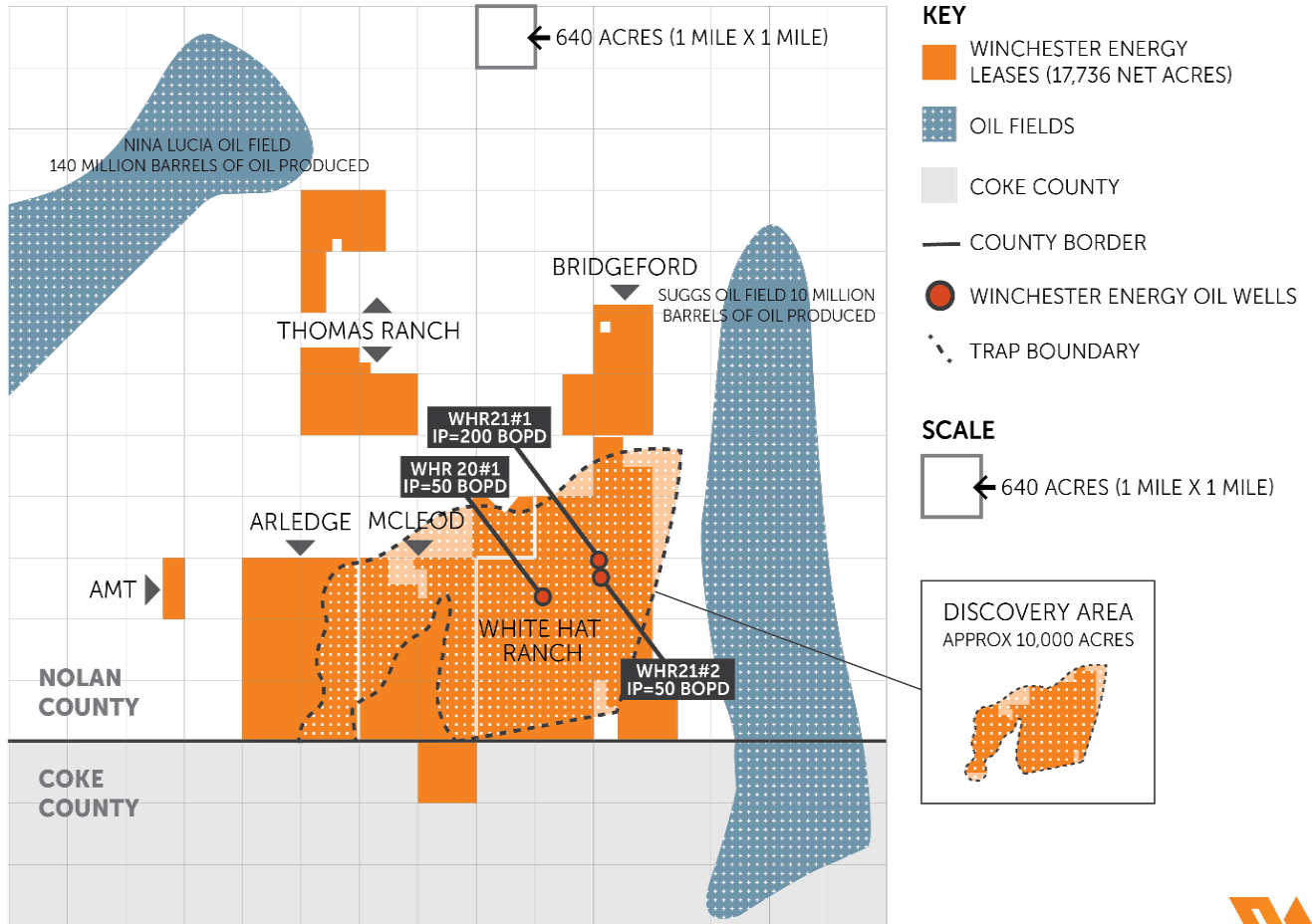
- **White Hat 21#4 (Winchester:50%WI):** The White Hat 21#4 vertical well reached a total depth (TD) of 7,042 feet on 16 June 2016 after drilling through the Ellenburger target zones. Oil and gas shows and wireline log interpretation indicate two oil bearing zones of comparable thickness and quality to those in the White Hat 21#1 well, the best producing oil well in the field to date. Substantial drilling fluid losses while drilling the main target zone also suggest appreciable formation permeability. Production casing was successfully run and cemented to TD and the drilling rig was then released. The Operator, Carl E Gungoll Exploration LLC (CEGX), commenced completion and production testing on 5 July 2016. Following acid stimulation, the well swabbed oil at increasing amounts from both intervals and the fluid column remained steady indicating good inflow. Production equipment is currently being installed and the Company will advise the market as soon as stabilized rates are established. White Hat 21#4 is located approximately 1,200 feet (366 meters) to the east of White Hat 21#1. The primary target in the White Hat 21#4 well is oil in the Ellenburger Formation. Shows were also encountered during drilling in several shallower formations but testing is not planned at this time. CEGX has a 50% working interest (WI) in the White Hat 21#4 well along with a 50%WI in the surrounding 40 acre drilling unit. Winchester owns the other 50%WI in the well and the drilling unit. Each party is paying 50% of the costs of White Hat 21#4.
- **White Hat 21#1 (Winchester:50%WI):** Average daily gross oil production over the quarter from White Hat 21#1 was 222 BOPD. The White Hat 21#1 well was placed on oil production on 17 September 2015. During the quarter the well experienced 3 days of down time due to weather and mechanical issues. The most recent 30 day average production rate for the well is 234 BOPD and 161 MCFPD of gas. The well has produced 62,949 bo from 17 September 2015 through to 30 June 2016 (a period of 287 days). It has yet to commence to decline in oil production.
- **White Hat 21#2 (Winchester:50%WI):** The White Hat 21#2 well spudded on 20 October 2015 to offset White Hat 21#1 to the south. The well was put on production on 5 January 2016 and has since produced 8,245 bo from the Ellenburger Formation through to 30 June 2016 (a period of 177 days). Daily oil production has been relatively flat averaging 43 BOPD over the quarter. The well is located 1,200 feet due south of White Hat 21#1 and was put on production with an initial oil production rate of 108 BOPD with approximately 50% water cut. Daily oil production rates are less than at the White Hat 21#1 location since the Ellenburger Formation at this location has lower permeability. This well may be a candidate in the future for stimulation or application of one of the improved recovery technologies which the Company is evaluating. Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners.



- **White Hat 20#1 (Winchester:50%WI):** The White Hat 20#1 was placed on production in May 2015 and production had declined to an average of 12 BOPD after 12 months. After taking fluid samples the Company determined that this well was likely to be affected by downhole formation damage and scale. The well was taken offline on 15 March 2016 and the damage was confirmed. This damage had significantly limited pump and oil production efficiency. A chemical treatment was designed and the well bore treated successfully. The well was placed back on production on 25 March 2016 and production increased from 11 BOPD to an average of 58 BOPD over the first week and then proceeded to decline to below 20 BOPD. After reviewing the treatment, it was determined that the well had developed a downhole bacteria problem and the scale prevention chemicals had been flushed out due to the unexpected high recovery rate. A second chemical treatment was designed to treat scale and bacteria build-up and the well bore was successfully treated down the back side of the tubing on 7 July 2016. The well was placed back on production with the result being an increase in oil production from 14 BOPD to a range of production between 20 BOPD to 50 BOPD. The White Hat 20#1 has produced a gross total of 8,479 bo from the Ellenburger Formation from 4 May 2015 through to 30 June 2016 (a period of 423 days).
- **White Hat 20#2 (Winchester:50%WI):** White Hat 20#2 was spudded on 6 November 2015 to offset White Hat 21#1 1200 feet to the west. After initially perforating the well, the well was fracture stimulated on 7 April 2016 utilizing a cross linked gel and sand to achieve greater oil production. After fracking, the well has been performing significantly below expectation and is being evaluated for addition operations to improve its performance including some cutting edge improved recovery techniques. This well was drilled prior to the Company completing the acquisition of 3D seismic over the ground as was the case for the White Hat 21#2 well. Seismic amplitudes and other attributes along with the well results, are contributing to our understanding of the Ellenburger Formation, which will contribute to better well placement in the future.
- **10,000 Acre Discovery Trap:** With the 5 White Hat lease wells drilled and the accumulated data sets now interpreted, the Company's technical team believes it has established an oil producing area in the Ellenburger Formation of approximately 10,000 acres. The reservoir is quite variable in quality but with recent geological modelling, seismic attribute analysis and imaging techniques the technical team has defined areas that should produce at rates of between 50 and 300 BOPD per vertical well and significantly higher rates in the case of short radius lateral wells. The current lease rules provide for 40 acre spacing between wells.



## 10,000 ACRE OIL DISCOVERY AREA



- Short Radius Lateral Drilling:** Winchester has signed an agreement with a service provider for the drilling of short radius lateral wells. The arrangement includes the use of proprietary technologies for drilling small diameter holes. Winchester is planning to drill a short radius lateral well in the near future. Winchester continues to evaluate and test improved recovery technologies it has identified as opportunities avail themselves. One such case is the White Hat 20#2 well. This well may be a future candidate for the use of short radius lateral drilling. Such a well would have 4 lateral legs of 500 feet. With drilling of this kind, Winchester plans to optimize its ability to intersect multiple zones with high fracture density, and at the same time intersect variable porosity zones in the rock due to mineralization, which is what we have already experienced in short distances between five wells. By drilling four 500 foot laterals, Winchester believes it can expose 2,000 feet of rock compared to 100 feet or so in the vertical well thus improving the productivity of each well. The current estimated cost to drill and complete a short radius lateral well of this kind is US\$1.7 million.

- **Geological and Geophysical Activities:** During the quarter, additional processing of 3D seismic occurred and the Company continued detailed analysis and integration of well logs, seismic and rock samples. Winchester continues to evaluate the variable reservoir characteristics of the Ellenburger Formation using these petrophysical, geophysical, core and cutting sample analyses. The focus is on better selection of future drilling locations on White Hat as well as the McLeod, Arledge and Bridgeford Leases. By developing mappable high productivity fairways, we can reduce drilling costs and improve oil production rates. The Company has expanded its well data base to over 54,000 wells and has 3D seismic coverage over 90% of its current acreage as well as over significant offset acreage. On the engineering front the Company has identified several new improved recovery techniques that may help to increase current oil production rates and ultimate oil recovery. One of these techniques was successfully applied to the recent workover of the White Hat 20#1 well.
- **Interest in White Hat Wells:** Winchester owns a 50% working interest (**WI**) in the White Hat 21#4, White Hat 20#1, White Hat 21#1, White Hat 21#2 and White Hat 20#2 wells, along with a 50%WI in each of the surrounding 40 acre drilling units. The remaining 50%WI in all 5 wells is owned by CEGX. Winchester's wholly owned USA subsidiary, Winchester Energy USA Holdings Inc., owns a 75%WI in the oil and gas mineral rights of the 7,378 acres which surround these wells. CEGX owns the remaining 25%WI in these 7,378 acres.
- **Thomas 119#1H Well (Winchester 50%WI):** The Company has temporarily suspended operations on the Thomas 119-1H horizontal well due to mechanical problems. The target in this well is the conventional oil play in the Ellenburger Formation. The Thomas 119-1H well operator, CraRuth, continues to analyses future options for the Thomas 119-1H well. The Company has no immediate plans for the well, except it is considering whether to apply new drilling technologies to potentially monetise the well.
- **Clear Fork Well on White Hat acreage:** Clear Fork Inc., an oil and gas company previously active in the Nolan County area and the owner of seismic over a substantial part of Nolan County, Texas has recently proposed to Winchester the drilling of a vertical well 1,200 feet to the South of the White Hat 21#4 well and 1,200 feet to the East of the White Hat 21#2 well. Under the proposal Winchester has a right to participate in the well up to a 25%WI. This is a one-off commercial arrangement between Winchester and Clear Fork that applies to a 40 acre drilling unit on the White Lease and it arose as part of an agreement whereby Winchester acquired seismic data over part of Nolan County from Clear Fork. The anticipated spud date proposed by Clear Fork (as Operator) is 15 August 2016. Winchester has yet to make a decision on whether to participate in the drilling of this well.



- **Maverick Prospect (Winchester 100%WI):** In late 2015 Winchester acquired a 100%WI in the deep oil and gas rights of 505 acres in a Cisco Sand oil field located in Coke County, Texas. This purchase of oil and gas rights includes the prospective deeper Ellenburger Formation. The Cisco Sand oil field is a structural horst block trap and has produced over 4 million barrels of oil. The trap is supported by 2D seismic and shallow wells. The underlying Ellenburger Formation remains untested and down dip offset wells have oil in tests and cuttings. The Bronte Field is located 5 miles to the east and has produced over 18 million barrels of oil from the Ellenburger and underlying Cambrian Sandstone formations.

## LAND AND LEASE ACTIVITIES

- **Total Lease Holdings (18,058 Net Acres):** The Company made minor adjustments to its lease positions during the quarter with the result that net acreage has changed from 17,736 net acres to 18,058 net acres.





## LOCATION OF OIL AND GAS LEASES, TEXAS

The Company's holding of 18,058 net acres is mainly located in Nolan County, Texas as indicated on the map below:



## OIL AND GAS LEASES – WELL WORKING INTERESTS

- The Company holds a total acreage position of 18,058 net acres across 8 lease instruments.
- The Company owns a 50%WI in the vertical White Hat 21#4 well along with a 50%WI in the well unit area which is 40 gross acres (20 net acres to the Company).
- The Company owns a 50%WI in the vertical White Hat 20#1 well along with a 50%WI in the well unit area which is 40 gross acres (20 net acres to the Company).
- The Company owns a 50%WI in the vertical White Hat 21#1 well along with a 50%WI in the well unit area which is 40 gross acres (20 net acres to the Company).
- The Company owns a 50%WI in the vertical White Hat 21#2 well along with a 50%WI in the well unit area which is 40 gross acres (20 net acres to the Company).
- The Company owns a 50%WI in the vertical White Hat 20#2 well along with a 50%WI in the well unit area which is 40 gross acres (20 net acres to the Company).
- The Company owns a 50%WI in the horizontal Thomas 119-1H well along with a 50%WI in the well unit area which is 240 gross acres (120 net acres to the Company).

## PLANNED ACTIVITIES – NEXT QUARTER

The planned activities for the quarter ending on 30 September 2016 are:

- Place the White Hat 21#4 well online and continue to closely monitor oil production from the White Hat 21#1, 20#1 and 21#2 and 20#2 vertical wells.
- Participate in a re-stimulation of the White Hat 20#2 well (Winchester 50% WI) for \$20,000 net to Winchester.
- Make a decision as to whether to participate in the drilling of the proposed Clear Fork vertical well.
- Make a decision on the drilling of a short radius lateral well using proprietary short radius lateral directional drilling technology.

Given the current oil price environment the Company will continue to be prudent and maintain a conservative approach to additional capital expenditures. Since all the Company's oil and gas leases are within their primary terms, the Company has no lease obligation wells in the next quarter in order to maintain its current acreage position.



The Company currently has no plans to acquire any substantial oil and gas leases in Nolan County, Texas but if favorable terms can be established it may consider small proximal lease interests. The Company will focus on further technical analyses and geological, seismic, engineering and enhanced oil recovery activities designed to optimize future drilling by reducing costs and improving well productivity.

## GLOSSARY

*These definitions are provided to assist persons in understanding some of the expressions used in this report.*

A\$ or Australian dollar	Australian dollars, the lawful currency of Australia.
ASX	ASX Limited and, where the context permits, the Australian Securities Exchange operated by ASX Limited.
Board	the board of Directors of the Company.
Boe	barrel(s) of oil equivalent.
Boepd	barrel(s) of oil equivalent per day.
Company	Winchester Energy Limited ACN 168 586 445.
Corporations Act	means the Corporations Act 2001 (Cth).
CraRuth	CraRuth Energy Corporation.
Eastern Shelf	refers to the eastern shelf of the Permian Basin in central west Texas, USA.
CEGX	Carl E Gungoll Exploration LLC
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.*

