



# WINCHESTER

ENERGY LTD

## PROSPECTUS

FOR AN OFFER OF 75,000,000 SHARES AT AN ISSUE  
PRICE OF A\$0.20 EACH TO RAISE A\$15,000,000

The Offer has a minimum subscription of A\$10,000,000. Refer to Section 3.2.

The Company will accept oversubscriptions in respect of the Offer. The maximum number of oversubscriptions that will be accepted is 25,000,000 Shares at an issue price of A\$0.20 each to raise an additional A\$5,000,000. Were this to occur, the total raising would be comprised of 100,000,000 Shares each issued at an issue price of A\$0.20 to raise A\$20,000,000.

The Offer is subject to and conditional upon the additional conditions of the Offer detailed in

Section 3.3 being satisfied. In the event that these conditions of the Offer are not satisfied, the Company will not proceed with the Offer and the Company will repay all Application Monies received.

It is proposed that the Offer will close at 5.00pm (WST) on Friday 29 August 2014. The Directors reserve the right to close the Offer earlier or to extend this date without notice. Applications must be received before that time.

This is an important document and requires your immediate attention. It should be read in its en-

tirety. Please consult your professional adviser(s) if you have any questions about this document.

The oil and gas properties and interests detailed in this Prospectus are at the exploration and evaluation stage. Accordingly, investment in the Shares offered pursuant to this Prospectus should be regarded as highly speculative in nature, and investors should be aware that they may lose some or all of their investment. Refer to Section 9 for a summary of the key risks associated with an investment in Shares.

LEAD BROKERS AND JOINT LEAD MANAGERS OF THE OFFER ARE





## DIRECTORS

Peter Allchurch  
Non-Executive Chairman

Neville Henry  
Managing Director

James Hodges  
Non-Executive Director

John D. Kenny  
Non-Executive Director

## COMPANY SECRETARY

Nicholas Calder

## REGISTERED AND CORPORATE OFFICE

Level 1, 100 Havelock Street  
West Perth WA 6005 Australia  
Telephone: +61 1300 133 921  
Facsimile: +618 6160 5901  
Email: [admin@winchesterenergy.com](mailto:admin@winchesterenergy.com)  
Website: [www.winchesterenergy.com](http://www.winchesterenergy.com)

## STOCK EXCHANGE LISTING

Australian Securities Exchange (ASX)  
Proposed ASX Code: **WEL**

## SHARE REGISTRY\*

Automic Registry Services  
Level 1, 7 Ventnor Avenue  
West Perth WA 6005 Australia  
Postal Address: PO Box 223  
West Perth WA 6872 Australia  
Telephone: +61 8 9324 2099  
Facsimile: +61 8 9321 2337

## LAWYERS (USA)

Looper Ballew  
Suite 2400  
1300 Post Oak Blvd  
Houston Texas USA 77056

## AUDITOR\*

BDO  
38 Station Street  
Subiaco WA 6008 Australia

## INVESTIGATING ACCOUNTANT

BDO Corporate Finance (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008 Australia

## INDEPENDENT TECHNICAL EXPERT

Ralph E Davis Associates, Inc.  
Suite 460  
1717 St James Place  
Houston Texas USA 77056

## LEAD BROKERS AND JOINT LEAD MANAGERS OF THE OFFER

CPS Capital Group Pty Ltd  
Level 45, BankWest Tower  
108 St Georges Terrace  
Perth WA 6000 Australia

Patersons Securities Limited  
Level 23, Exchange Plaza  
2 The Esplanade  
Perth WA 6000 Australia

\* These entities are included for information purposes only. They have not been involved in the preparation of this Prospectus.



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# IMPORTANT NOTICE

This Prospectus is dated and was lodged with ASIC on 8 August 2014. Neither ASIC nor ASX (or their respective officers) take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. The expiry date of this Prospectus is 5.00pm WST on that date which is thirteen (13) months after the date this Prospectus was lodged with ASIC. No Shares will be issued on the basis of this Prospectus after that expiry date.

Application will be made to ASX within seven (7) days of the date of this Prospectus for Official Quotation of the Shares the subject of the Offer.

No person is authorised to give any information or to make any representation in connection with the Offer, other than as is contained in this Prospectus. Any information or representation not contained in this Prospectus should not be relied on as having been made or authorised by the Company or the Directors in connection with the Offer.

It is important that you read this Prospectus in its entirety and seek professional advice where necessary. The Shares the subject of this Prospectus should be considered highly speculative.

## EXPOSURE PERIOD

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. You should be aware that this examination may result in the identification of deficiencies in this Prospectus. In such circumstances, any Application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act. Applications under this Prospectus will not be processed by the Company until after the Exposure Period. No preference will be conferred upon Applications received in the Exposure Period.

## ELECTRONIC PROSPECTUS AND APPLICATION FORMS

This Prospectus will generally be made available in electronic form by being posted on the Company's website at [www.winchesterenergyltd.com](http://www.winchesterenergyltd.com). Persons having received a copy of this Prospectus in its electronic form may obtain an additional paper copy of this Prospectus and the relevant Application Form (free of charge) from the Company's registered office during the Offer Period by contacting the Company. The Offer constituted by this Prospectus in electronic form is only available to persons receiving an electronic version of this Prospectus and relevant Application Form within Australia.

Applications will only be accepted on the relevant Application Form attached to, or accompanying, this Prospectus or in its paper copy form as downloaded in its entirety from [www.winchesterenergyltd.com](http://www.winchesterenergyltd.com). The Corporations Act prohibits any person from passing on to another person the Application Form unless it is accompanied by or attached to a complete and unaltered copy of this Prospectus.

Prospective investors wishing to subscribe for Shares under the Offer should complete the Application Form. If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

## WEBSITE

No document or information included on the Company's website is incorporated by reference into this Prospectus.

## FOREIGN INVESTORS

No action has been taken to register or qualify the Shares the subject of this Prospectus, or the Offer, or otherwise to permit the public offering of the Shares, in any jurisdiction outside Australia. The distribution of this Prospectus in jurisdictions outside of Australia may be restricted by law and persons who come into possession of this Prospectus outside of Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. This Prospectus does not constitute an offer of Shares in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

## SPECULATIVE INVESTMENT

The Shares offered pursuant to this Prospectus should be considered highly speculative. There is no guarantee that the Shares offered pursuant to this Prospectus will make a return on the capital invested, that dividends will be paid on the Shares or that there will be an increase in the value of the Shares in the future.

Prospective investors should carefully consider whether the Shares offered pursuant to this Prospectus are an appropriate investment for them in light of their personal circumstances, including their financial and taxation position. Refer to Section 9 for details relating to the key risks applicable to an investment in the Shares.

## USING THIS PROSPECTUS

Persons wishing to subscribe for Shares offered by this Prospectus should read this Prospectus in its entirety in order to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses, and prospects of the Company



and the rights and liabilities attaching to the Shares offered pursuant to this Prospectus. If persons considering subscribing for Shares offered pursuant to this Prospectus have any questions, they should consult their stockbroker, solicitor, accountant or other professional adviser for advice.

## PRIVACY STATEMENT

To apply for Shares you will be required to provide certain personal information to the Company and the Share Registry. The Company and the Share Registry will collect, hold and use your personal information in order to assess your Application, service your needs as an investor, provide facilities and services that you request and carry out appropriate administration. The Corporations Act and taxation law requires some of this personal information to be collected. If you do not provide the information requested, your Application may not be able to be processed efficiently, or at all.

By submitting an Application Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Application Form for the purposes detailed in this Privacy Statement and may disclose it for those purposes to the Share Registry, the Company's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a Shareholder. Information contained in the Company's register is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with its legal and regulatory requirements.

## FORWARD-LOOKING STATEMENTS

This Prospectus 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 Prospectus, 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. Key risk factors associated with an investment in the Company are detailed in Section 9. These and other factors 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 Prospectus, 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 Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

## PHOTOGRAPHS AND DIAGRAMS

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

## COMPETENT PERSON'S STATEMENT

The information in this Prospectus on the Van Hoogen Oil Project Area and the Van Hoogen Oil Project Leases 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. Mr Henry has used the Petroleum Resources Management System (PRMS) to define resource classification and volumes.

## GLOSSARY

Defined terms and abbreviations used in this Prospectus are explained in the Glossary in Section 13.

# INVESTMENT HIGHLIGHTS

The Board has a combined 130 years' successful experience in oil and gas discovery, development and production in the USA and many other parts of the world.

Key founders, directors and shareholders of the Company include Mr Neville Henry (Houston based) and Mr Peter Allchurch (Perth based), each of whom are highly experienced and successful oil industry participants who were involved in the discovery of unconventional oil in the Eagle Ford Shale in Texas, USA.

The Company has reviewed numerous unconventional oil and gas opportunities across the major developing unconventional oil plays located in the USA. The Company believes that the Eastern Shelf of the Permian Basin in Texas, USA offers prospective Cline Shale unconventional oil opportunities at shallow depth, together with attractive conventional oil targets in the Ellenburger "E" Interval at slightly greater depth.

The Company's particular area of interest within the Eastern Shelf of the Permian Basin in Texas, USA is in Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green counties (**Van Hoogen Oil Project Area**) which is an area where there is 300 feet of thermally mature Cline Shale and other stacked exploration targets including the prospective Ellenburger "E" Interval.

Through a joint venture with CraRuth Energy Corporation (**CraRuth**) and MCG Drilling Investments LLC (**MCG Drilling**), the Company owns a 50% working interest in the Thomas 119-1H well located in Nolan County in Texas, USA (**Thomas Well**). The Company has expended US\$2,000,000 to earn this 50% working interest, which reduces to a 25% working interest after well payback (i.e. cash return to the Company of its US\$2,000,000 investment out of its 50% share of net revenues from oil and gas production). The remaining 50% working interest in the Thomas Well is owned by CraRuth (25% working interest) and MCG Drilling (25% working interest). CraRuth is the operator of the Thomas Well under the terms of a joint operating agreement entered into between the Company, CraRuth and MCG Drilling. Refer to Sections 1.3 and 8.8 for further details.

Well logs run after the vertical pilot hole portion of the Thomas Well was drilled, indicate two zones of potential pay in the Cline Shale (Three Fingers and Lower Penn), one zone of log-interpreted conventional pay in the Odom Limestone and log-interpreted conventional pay in the Ellenburger "E" Interval. Subsequent to the logging of the vertical pilot hole, the Thomas Well has been drilled horizontally into the Ellenburger "E" Interval. The Thomas Well has reached a total depth (**TD**) of 10,265 feet after drilling just over 2,500 feet horizontally in the target zone of the Ellenburger "E" Interval. Oil and gas shows were encountered throughout the targeted interval and independent log interpretation indicates just over 700 feet of conventional pay zone. Production liner with swellable packers to isolate potential production zones has been successfully run to TD. Further completion and production testing operations will commence once the packers have set which takes several weeks. If the Thomas Well is successful, it will be placed on production from the Ellenburger "E" Interval, leaving the Cline Shale zones (Three Fingers and Lower Penn) to be tested at a later date in the same well or by way of additional separate wells. It is likely that several horizontal wells will be required to prove each of the Cline Shale zones and the Ellenburger "E" Interval oil plays.



The Company owns proprietary geological, geotechnical and geophysical intellectual property on the Cline Shale and Ellenburger “E” Interval oil plays across the Van Hoogen Oil Project Area which the Company believes will assist it to identify potential “sweet spots” to drill and attractive areas to seek to lease. The Cline Shale in this area is at shallow depths (6,500 feet) and is thermally mature and kerogen rich.

The Cline Shale Oil Play first achieved success in the deeper part of the basin west of the Eastern Shelf. Recent drilling has progressed towards and onto the Eastern Shelf area with a best 24 hour initial production (**IP**) result of 1,497 boe from Firewheel Energy’s H&H Ranch 41 horizontal well, which is 40 miles to the south-west of the Thomas Well. A typical Cline Shale horizontal fraced well located on the Eastern Shelf costs approximately US\$6,500,000 with a 6,000 foot lateral.

The Company has entered into an agreement to acquire the entire issued share capital of CEP Nolan Partners Inc. (**CEP**) which will have, on completion of the acquisition, an 80% working interest in 4,647 acres of oil and gas leases located in Nolan County, Texas (**Van Hoogen Oil Project Leases**). The remaining 20% working interest is owned by CraRuth and MCG Drilling. Refer to Sections 1.7 and 8.1 for further details.

The Thomas Well and the Van Hoogen Oil Project Leases are located in Nolan County, Texas, a county within the Van Hoogen Oil Project Area that has indicated the presence of prospective shale oil (within the Cline Shale Oil Play) which correlates locally and regionally to significant nearby wells.

The Ellenburger “E” Interval and the Strawn interval (an additional interval within the Van Hoogen Oil Project Area) are productive in vertical wells immediately adjacent to the Thomas Well and the Van Hoogen Oil Project Leases. This “stacked play” situation considerably reduces exploration risk in the Company’s lease areas. Devon Energy Corporation (NYSE: DVN) is producing oil from nearby recently established wells in the Cline Shale and oil has been produced for many years from the Ellenburger “E” Interval from oil fields immediately adjacent to the Thomas Well and the Van Hoogen Oil Project Leases.

The energy sector on mainland USA has become an area of great interest for USA and global oil and gas companies over the past 5 years. The rich oil deposits that propelled the USA economy at the start of the 20th century are being reopened as a result of newly developed technologies that permit the extraction of oil and gas from tighter reservoirs such as the Cline Shale, making it a viable and attractive sector.

Texas is a globally recognised and proven oil and gas jurisdiction with more than 100 years of continuous oil production. The region maintains significant petroleum industry infrastructure and technical and operational expertise.

One of the Company’s objectives following the acquisition of CEP and the completion of the Offer is to identify and reach agreement with a suitable farm-in joint venture participant to contribute to the funding of the proposed drilling program on the Van Hoogen Oil Project Leases and the potential acquisition of further oil and gas leases within the Van Hoogen Oil Project Area.

# INVESTMENT OVERVIEW

The information below is a selective overview only. Prospective investors should read this Prospectus in full before deciding whether to invest in the Shares the subject of the Offer.

Topic	Summary	More Information
<b>A. COMPANY AND BUSINESS OVERVIEW</b>		
<b>Who is issuing this Prospectus?</b>	Winchester Energy Limited ACN 168 586 445 ( <b>Company</b> )	
<b>What does the Company do and what is its business model?</b>	<p>The Company is in the business of oil and gas exploration and production. The Company was founded for the primary purpose of:</p> <ul style="list-style-type: none"> <li>acquiring oil and gas leases and working interests (<b>WI</b>) in areas situated on the Eastern Shelf of the Permian Basin in Texas, USA, a location which offers prospective Cline Shale unconventional oil opportunities at shallow depth together with attractive conventional oil targets in the Ellenburger "E" Interval at slightly greater depth; and</li> <li>seeking to drill wells to explore for oil and gas in respect to those leases and working interests in order to ultimately achieve commercial oil and gas production.</li> </ul> <p>The Company owns proprietary geological, geotechnical and geophysical intellectual property on the Cline Shale and Ellenburger "E" Interval oil plays across the Van Hoogen Oil Project Area and this intellectual property should assist the Company to identify potential "sweet spots" to drill and attractive areas to seek to lease and/or acquire working interests.</p> <p>The Company intends to actively seek to identify, and reach agreement with, a suitable farm-in joint venture participant to contribute funding (along with the Company) in respect to the proposed drilling program for the Company's interests within the Van Hoogen Oil Project Area.</p> <p>The Company's business model is highly dependent on the achievement of technical and commercial success from its exploration programs as well as being dependent on other fiscal, economic, regulatory and environmental factors. Prospective investors should refer to the risks to the Company's business model detailed in Section 9.</p>	Sections 1 and 9
<b>What is the Company's financial prospects and position?</b>	<p>The Company is an early stage oil and gas exploration company that was incorporated in March 2014 and therefore has a limited operating history on which an evaluation of its financial prospects can be made. The Company has not yet generated any revenue or profit, and is unable to provide any meaningful key financial ratios, whether relating to market performance, profitability or financial stability. The Company does not have any debt financing or borrowings.</p> <p>Relevant financial information in respect to the Company, including a pro-forma balance sheet showing the effect of the Offer, is detailed in Section 7.</p>	Sections 6 and 7



Topic	Summary	More Information
<b>A. COMPANY AND BUSINESS OVERVIEW (CONT.)</b>		
<b>What are the Company's major assets?</b>	<p>The Company has, or will have upon completion of the Offer, the following major assets and interests:</p> <ul style="list-style-type: none"><li>• a 50% working interest in the Thomas Well;</li><li>• an 80% working interest in 4,647 acres of oil and gas leases in Nolan County, Texas, USA (being the Van Hoogen Oil Project Leases); and</li><li>• proprietary geological, geotechnical and geophysical intellectual property in respect to the Van Hoogen Oil Project Area.</li></ul> <p>The Van Hoogen Oil Project Area is comprised of the area within the boundaries of 7 counties of Texas (Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green counties) in the USA.</p>	Sections 1.3, 1.5 and 1.7
<b>Why is the Company seeking to raise funds?</b>	<p>The Company is seeking to raise funds in order to develop and add value to its interests in the Van Hoogen Oil Project Leases by undertaking a drilling program within the Van Hoogen Oil Project Leases and to enable it to acquire additional oil and gas lease interests within the Van Hoogen Oil Project Area.</p>	Sections 1.9 and 3.6
<b>B. KEY RISKS</b>		
<b>What are the key risks of investing in the Company</b>	<p>Some of the key risks of investing in the Company are detailed below. The list of risks is not exhaustive and further details of these risks and other risks associated with an investment in the Company are in Section 9.</p> <ul style="list-style-type: none"><li>(a) <b>Exploration Risks:</b> Exploration and development of oil and gas projects are high risk ventures and often encounter technical difficulties. The costs of exploration and development can exceed planned expenditure due to inherent uncertainties.</li><li>(b) <b>Operational Risks:</b> The operations of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company.</li><li>(c) <b>Oil and Gas Estimates:</b> Oil and gas estimates are expressions of judgment based on knowledge, experience and oil industry practice. Estimates that were valid when made may change significantly when new information becomes available.</li><li>(d) <b>Title Risks:</b> The process of confirming clear title to oil and gas leases in Texas, USA is an ongoing task. If, at the relevant time, clear title cannot be determined, drilling on a lease may be delayed or halted indefinitely.</li><li>(e) <b>Exchange Rate Fluctuations:</b> Any appreciation in the US dollar against the Australian dollar will increase the costs of the Company's operations.</li><li>(f) <b>Future Funding Requirements:</b> There is no certainty regarding the ability of the Company to raise sufficient funds to meet the needs of the Company in the future.</li><li>(g) <b>Reliance on Key Personnel:</b> The Company is reliant on a number of key personnel and consultants, including members of the Board.</li><li>(h) <b>Limited Operating History:</b> The Company has only a very limited operating history in the oil and gas industry on which to make an evaluation of its prospects.</li><li>(i) <b>General Risks:</b> There are a number of general risks associated with an investment in the Company including share market conditions and economic risk.</li></ul>	Section 9 Section 9.1(a) Section 9.1(b) Section 9.1(c) Section 9.1(d) Section 9.1(l) Section 9.1(o) Section 9.1(q) Section 9.1(r) Section 9.2

# INVESTMENT OVERVIEW (cont.)

Topic	Summary	More Information
<b>C. SUMMARY OF THE OFFER</b>		
<b>What is the Offer and what are its key terms?</b>	The Company is offering 75,000,000 new Shares at an issue price of A\$0.20 each to raise A\$15,000,000 (before associated costs) ( <b>Offer</b> ). The Offer is subject to a minimum subscription of A\$10,000,000. The Company will accept oversubscriptions in respect of the Offer of up to 25,000,000 Shares at an issue price of A\$0.20 each to raise an additional A\$5,000,000. If the maximum number of oversubscriptions are received and accepted by the Company, a total of 100,000,000 Shares will be issued under the Offer at an issue price of A\$0.20 to raise A\$20,000,000 (before associated costs).	Sections 3.1 and 3.2
<b>What is the effect of the Offer on the capital structure of the Company?</b>	The Shares issued under the Offer (assuming A\$15,000,000 is raised pursuant to the Offer) will represent approximately 39.4% of the enlarged issued share capital of the Company following the Offer and the completion of the Acquisition (on an undiluted basis).	Section 3.7
<b>D. DIRECTORS AND RELATED PARTY INTERESTS AND ARRANGEMENTS</b>		
<b>Who are the Directors?</b>	The Directors are Mr Peter Allchurch, Mr Neville Henry, Mr James Hodges and Mr John D. Kenny. The Board has a combined 130 years of successful experience in oil and gas discovery, development and production in the USA and many other parts of the world.	Sections 2.1 and 2.2
<b>What benefits are being paid to Directors</b>	In consideration for the provision of consulting services: <ul style="list-style-type: none"> <li>(a) a company associated with Mr Peter Allchurch is being paid A\$13,000 (plus GST) per month;</li> <li>(b) a company associated with Mr Neville Henry is being paid A\$25,000 (plus GST) per month;</li> <li>(c) a company associated with Mr John D. Kenny is being paid A\$13,000 (plus GST) per month.</li> </ul> Mr James Hodges is being paid A\$6,000 per month as fees for being a Non-Executive Director of the Company.	Sections 8.9, 8.10 and 8.11
<b>What important contracts with related parties is the Company a party to?</b>	The Company has entered into an agreement to acquire the entire issued share capital of CEP Nolan Partners Inc. ( <b>CEP</b> ) which will have, on completion of the Acquisition, an 80% working interest in 4,647 acres of oil and gas leases located in Nolan County, Texas. The consideration for the Acquisition consists of the issue of Shares, Options, Convertible Milestone Notes and a Deferred Cash Payment to the Vendors (being the various shareholders of CEP). <p>Mr Peter Allchurch, the Non-Executive Chairman of the Company, a company associated with the Managing Director, Mr Neville Henry and a discretionary trust associated with a Non-Executive Director, Mr John D. Kenny, are each Vendors. Accordingly, each of the Directors (or entities with whom they are associated) will be receiving a proportion of the consideration payable by the Company in respect to the Acquisition.</p>	Sections 8.1 and 10.4



Topic	Summary	More Information
<b>D. DIRECTORS AND RELATED PARTY INTERESTS AND ARRANGEMENTS (CONT.)</b>		
<b>What interests do Directors have in the securities of the Company?</b>	<p>The interests of the Directors on the date of this Prospectus, and following completion of the Offer and the Acquisition are detailed in Section 10.4.</p> <p>As at the date of this Prospectus, entities associated with Mr Peter Allchurch, Mr Neville Henry and Mr John Kenny are each substantial Shareholders, having a relevant interest in 5% or more of the Shares on issue. Details of the substantial Shareholders are in Section 10.9.</p>	Sections 10.4 and 10.9
<b>E. APPLICATIONS AND OTHER INFORMATION</b>		
<b>Who is eligible to participate in the Offer?</b>	The Offer is open to all investors who are resident in Australia.	Section 3
<b>How do I apply for Shares?</b>	Applications under the Offer can be made by completing the Application Form, in accordance with the instructions accompanying the Application Form.	Application Form
<b>What is the allocation policy?</b>	The Directors will allocate Shares at their sole discretion with a view to ensuring an appropriate Shareholder base for the Company going forward.	Section 3
<b>What is the cost of the Offer?</b>	Assuming A\$15,000,000 is raised by the Offer, the expenses of the Offer are estimated to be approximately A\$1,143,786.	Section 10.7
<b>Will dividends be paid?</b>	Following completion of the Acquisition, the Company will be an oil and gas exploration company and is not expected to be producing oil or gas, generating revenue or making profits. Accordingly, the Company does not expect to pay dividends in the near future.	Section 3.14
<b>How can I obtain further information?</b>	Further information can be obtained by reading this Prospectus and consulting your professional advisors. You can also contact the Company Secretary on +61 1300 133 921 for further details.	Corporate Directory
<b>Company contact</b>	You can contact the Company Secretary on +61 1300 133 921 for further details.	Corporate Directory

# INDICATIVE TIMETABLE FOR THE OFFER

Lodgement of Prospectus with ASIC	8 August 2014
Opening date of the Offer	11 August 2014
Closing date of the Offer (5:00pm WST)	29 August 2014
Expected allotment date of Shares	3 September 2014
Despatch of holdings statements	5 September 2014
Shares commence trading on ASX	18 September 2014

The above dates are indicative only and may change without notice. The Company reserves the right to amend the timetable at any time.

## KEY OFFER STATISTICS

The capital structure of the Company following completion of the Offer and the Acquisition will be as follows:

### SHARES

Current issued Shares	56,416,672
Shares issued to Vendors in respect to the Acquisition	51,000,000
Shares issued under the Offer <sup>A</sup>	75,000,000
Shares issued to Consultants, Brokers and Joint Lead Managers	8,000,000
<b>TOTAL SHARES</b>	<b>190,416,672</b>

### OPTIONS

Currently issued Options	16,000,000
Options issued to Vendors in respect to the Acquisition	14,000,000
<b>TOTAL OPTIONS</b>	<b>30,000,000</b>

### CONVERTIBLE MILESTONE NOTES

Currently issued Convertible Milestone Notes	54,000
Convertible Milestone Notes issued to Vendors in respect to the Acquisition <sup>B</sup>	6,000
<b>TOTAL CONVERTIBLE MILESTONE NOTES</b>	<b>60,000</b>

### Notes

- A. Assumes a subscription of A\$15,000,000 (being 75,000,000 Shares) under the Offer.
- B. Comprising 1,000 Class A Convertible Milestone Notes, 2,000 Class B Convertible Milestone Notes and 3,000 Class C Convertible Milestone Notes, each of which may convert into 1,000 Shares upon the achievement of certain milestones in accordance with the terms and conditions detailed in Sections 11.3, 11.4 and 11.5.

# CHAIRMAN'S LETTER

## DEAR INVESTOR

On behalf of the Board of Winchester Energy Limited (**Company**), I am pleased to present this Prospectus to you and invite you to become a shareholder in the Company.

The Company has reviewed numerous unconventional oil and gas opportunities across the major developing unconventional oil plays located in the USA. The Company believes that the Eastern Shelf of the Permian Basin in Texas, USA offers prospective Cline Shale unconventional oil opportunities at shallow depth, together with attractive conventional oil targets in the Ellenburger "E" Interval at slightly greater depth.

The Cline Shale Oil Play is located in the Permian Basin in West Texas and is an emerging oil shale development region with excellent potential. The Permian Basin is the location of some of the earliest oil and gas discoveries in the United States. It covers roughly 66,000 square miles, contains hundreds of oil and gas fields and is one of the most prolific oil areas in North America, having produced 35 billion barrels of oil from multiple sedimentary zones. The Cline Shale therefore is in a geographic region that is a strong, traditional source of oil and natural gas exploration and production and which also possesses an extensive rail, petroleum pipeline and road transportation network. The immediate region maintains extensive infrastructure for the petroleum industry including exploration, processing and technical expertise required for the effective establishment and operation of an oil and gas company like Winchester Energy Limited.

The Cline Shale Oil Play first achieved success in the deeper part of the Permian Basin, west of the Eastern Shelf. Recent drilling has progressed towards and onto the Eastern Shelf with a best 24 hour initial production result of 1,497 boe from Firewheel Energy's H&H Ranch 41 horizontal well, which is 40 miles to the south-west of the Company's Thomas Well.

The Company's particular area of interest is in Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green counties in Texas, which is an area where there is 300 feet of thermally mature Cline Shale and other stacked exploration targets including the prospective Ellenburger "E" Interval.

The Ellenburger "E" Interval along with the Strawn interval are both productive in vertical wells immediately adjacent to the Thomas Well and the Van Hoogen Oil Project Leases. This "stacked play" situation considerably reduces exploration risk in the Company's lease areas. Devon Energy Corporation (NYSE: DVN) is producing oil from nearby recent wells in the Cline Shale and oil has been produced for many years from the Ellenburger "E" Interval and Strawn interval in oil fields immediately adjacent to the Thomas Well and Van Hoogen Oil Project Leases.

The Company owns proprietary geological, geotechnical and geophysical intellectual property on the Cline Shale and Ellenburger "E" Interval oil plays across Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green counties in Texas, USA which should assist the Company to identify potential "sweet spots" to drill and attractive areas to seek to lease. The Cline Shale in this area is at shallow depths (6,500 feet) and is thermally mature and kerogen rich.

The Company is presently participating in the drilling and completion of the Thomas Well into the Ellenburger "E" Interval. The Company has a 50% working interest in the Thomas Well which reduces to a 25% working interest after well payback (i.e. cash return to the Company of its US\$2,000,000 investment out of its 50% share of net revenues from oil and gas production). The Thomas Well has reached a total depth (**TD**) of 10,265 feet after drilling just over 2,500 feet horizontally in the target zone of the Ellenburger "E" Interval. Oil and gas shows were encountered throughout the targeted interval and independent log interpretation indicates just over 700 feet of conventional pay zones. Production liner with swellable packers to isolate potential production zones has been successfully run to TD. Further completion and production testing operations will commence once the packers have set which takes several weeks. If the Thomas Well is successful, it will be placed on production from the Ellenburger "E" Interval, leaving the Cline Shale prospective zones identified in well logs (Three Fingers and Lower Penn) to be tested at a later date in the same well or in additional separate wells.

The Company's objectives following completion of the Acquisition and the Offer is to identify, and reach agreement with, a suitable farm-in joint venture participant to contribute to the funding of the proposed drilling program on the Van Hoogen Oil Project Leases and the potential acquisition of further oil and gas leases within the Van Hoogen Oil Project Area.

The purpose of the Offer is to raise A\$15,000,000 (before associated costs) by the issue of 75,000,000 Shares at an issue price of A\$0.20 each. The Offer is subject to a minimum subscription of A\$10,000,000. The Company will accept oversubscriptions in respect of the Offer of up to 25,000,000 Shares at an issue price of A\$0.20 each to raise an additional A\$5,000,000. If the maximum number of oversubscriptions is received, a total of 100,000,000 Shares will be issued under the Offer at an issue price of A\$0.20 to raise A\$20,000,000 (before associated costs).

The proceeds of the Offer will be used to fund the Company's oil and gas exploration and development activities and to purchase additional oil and gas leases within the Van Hoogen Oil Project Area.

This Prospectus contains detailed information about the Offer and the Company's acquisition of CEP Nolan Partners Inc., as well as the risks pertaining to an investment in the Company. I encourage you to read it carefully and to seek independent professional advice as to the merits and risks associated with an investment in the Company.

We look forward to welcoming you as a Shareholder should you decide to take up Shares pursuant to this Offer.

Yours sincerely

**Peter Allchurch**  
Non-Executive Chairman

# 1. OVERVIEW OF THE COMPANY

## 1.1 BACKGROUND

The Company is an Australian incorporated oil and gas exploration company which was founded in March 2014 by Messrs Peter Allchurch, Neville Henry and John D. Kenny for the primary purpose of acquiring oil and gas leases and working interests in areas situated on the Eastern Shelf of the Permian Basin in Texas, USA, a location which offers prospective Cline Shale unconventional oil opportunities at shallow depth together with attractive conventional oil targets in the Ellenburger "E" Interval at slightly greater depth.

## 1.2 VAN HOOGEN OIL PROJECT AREA

The Company's particular area of interest within the Eastern Shelf of the Permian Basin in Texas is in Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green counties in Texas, USA (together being the **Van Hoogen Oil Project Area**) which is an area in which there is 300 feet of thermally mature Cline Shale and other stacked exploration targets including the prospective Ellenburger "E" Interval.

## 1.3 50% WORKING INTEREST IN THE THOMAS WELL

Through a joint venture with CraRuth Energy Corporation (**CraRuth**) and MCG Drilling Investments LLC (**MCG Drilling**), the Company owns a 50% working interest in the Thomas 119-1H well located in Nolan County, Texas, USA (**Thomas Well**).

On 30 April 2014, the Company entered into a deed of assignment with Carina Energy Partners LLC (**Carina**) (a company associated with a Director, Mr Neville Henry) (**Thomas Deed of Assignment**) pursuant to which the Company:

- (a) was assigned from Carina all of Carina's rights to the Thomas Well in exchange for the Company reimbursing Carina US\$900,000 cash being the monies Carina had expended to that date on its 50% share of the drilling costs of the Thomas Well; and
- (b) assumed the obligation of Carina to pay a further US\$1,000,000 towards the future drilling costs of the Thomas Well.

The above two sums plus the payment of associated transaction costs resulted in a cost base to the Company of US\$2,000,000 for its 50% working interest in the Thomas Well. Carina earned no margin or profit by way of the Thomas Deed of Assignment as it was being reimbursed for sums already paid by it for contributing to the costs of drilling the Thomas Well (US\$900,000) and assigning a future obligation to expend a further US\$1,000,000 on the costs of drilling the Thomas Well.

Accordingly, the Company has expended a total of US\$2,000,000 for its 50% working interest in the Thomas Well. The remaining 50% working interest in the Thomas Well is held equally by CraRuth (25%) and MCG Drilling (25%). Following payback (that is, cash return to the Company of its US\$2,000,000 investment out of its 50% share of net revenues from oil and gas production), the Company's working interest in the Thomas Well will reduce to 25%.

CraRuth is the operator of the Thomas Well under the terms of a joint operating agreement entered into between the Company, CraRuth and MCG Drilling (**Thomas Well JOA**). The Thomas Well JOA includes standard, customary terms for an agreement of its nature in respect of a well in Texas, USA.

Well logs run after the vertical pilot hole portion of the Thomas Well was drilled, indicate two zones of potential pay (unconventional) in the Cline Shale (Three Fingers and Lower Penn), one zone of log-interpreted conventional pay in the Odom Limestone and log-interpreted conventional pay in the Ellenburger "E" Interval. Subsequent to the completion of the vertical pilot hole, the Thomas Well has been drilled horizontally into the Ellenburger "E" Interval. The Thomas Well has reached a total depth (**TD**) of 10,265 feet after drilling just over 2,500 feet horizontally in the target zone of the Ellenburger "E" Interval. Oil and gas shows were encountered throughout the targeted interval and independent log interpretation indicates just over 700 feet of conventional pay zones. Production liner with swellable packers to isolate potential production zones has been successfully run to TD. Further completion and production testing operations will commence once the packers have set which takes several weeks. If the Thomas Well is successful, it will be placed on production from the Ellenburger "E" Interval, leaving the Cline Shale zones (Three Fingers and Lower Penn) to be tested at a later date in the same well or by way of additional separate wells.

Further details of the Cline Shale and the Ellenburger "E" Interval oil plays are in the Independent Technical Expert's Report in Section 4.



## 1.4 ACQUISITION OF CEP AND AN 80% WORKING INTEREST IN THE VAN HOOGEN OIL PROJECT LEASES

On 24 June 2014, the Company entered into a purchase agreement (**CEP Purchase Agreement**) to acquire the entire issued share capital of CEP Nolan Partners Inc. (**CEP**) from the shareholders of CEP (**Vendors**) in consideration for the issue of Shares, Options, Convertible Milestone Notes and the payment of the Deferred Cash Payment (**Acquisition**). Refer to Section 8.1 for further details of the terms and conditions of the CEP Purchase Agreement.

On completion of the Acquisition, the Company will own the entire issued share capital of CEP and consequently an 80% working interest in 4,647 acres of oil and gas leases located in Nolan County, Texas which is one of the counties within the Van Hoogen Oil Project Area (**Van Hoogen Oil Project Leases**). The remaining 20% working interest will remain owned by CraRuth and MCG Drilling. Refer to Section 1.7(b) for further details of the Van Hoogen Oil Project Leases.

## 1.5 PROPRIETARY GEOLOGICAL, GEOTECHNICAL AND GEOPHYSICAL INTELLECTUAL PROPERTY OVER THE VAN HOOGEN OIL PROJECT AREA

The Board has a combined 130 years of successful experience in oil and gas discovery, development and production in the USA and many other parts of the world. Key founders, directors and shareholders of the Company include Mr Neville Henry (Houston based) and Mr Peter Allchurch (Perth based), both of whom are highly experienced and successful oil industry participants who have been involved in the discovery of unconventional oil from the Eagle Ford Shale in Texas, USA.

On 24 April 2014, the Company acquired from Mr Henry and Mr Allchurch (amongst others) proprietary geological, geotechnical and geophysical intellectual property in respect to the Cline Shale and Ellenburger "E" Interval oil plays across the Van Hoogen Oil Project Area comprised of:

- (a) mud log reports;
- (b) 3D seismic interpretation;
- (c) wireline log readings; and
- (d) well core analysis.

As part of its ongoing strategy, the Company intends to complement its existing (i.e. the Thomas Well working interest) and post-Acquisition (i.e. the Van Hoogen Oil Project Leases working interest) portfolio of interests in the Van Hoogen Project Area by investigating and seeking to acquire additional leasehold and/or working interests. The Company intends to utilise its proprietary geological, geotechnical and geophysical intellectual property to assist it to identify potential acquisition areas and "sweet spots" to drill within those areas.

The adjacent diagram shows the location of the Van Hoogen Oil Project Area.



# 1. OVERVIEW OF THE COMPANY (cont.)

## 1.6 EASTERN SHELF OF THE PERMIAN BASIN

The Van Hoogen Oil Project Area is within the Cline Shale Oil Play, an emerging oil shale development region with excellent potential within the Permian Basin. The Permian Basin is the location of some of the earliest oil and gas discoveries in the United States. It covers roughly 66,000 square miles, contains hundreds of oil and gas fields and is one of the most prolific oil areas in North America, having produced 35 billion barrels of oil from multiple sedimentary zones. The basin was once covered by the Permian Sea, which was hindered by a restricted outlet when it began to recede. The resulting inland sea evaporated over time in the hot dry locale. This ultimately led to the formation of thick deposits of organic-rich sediments, creating one of the world's most productive oil regions.

The Cline Shale Oil Play is accordingly in a geographic region that is a strong, traditional source of oil and natural gas exploration and production, and which also possesses an extensive rail, petroleum pipeline and road transportation network. The immediate region maintains extensive infrastructure for the petroleum industry including the exploration, processing and technical expertise required for the effective establishment and operation of an oil and gas company like Winchester Energy Limited.

Further details in respect to the Cline Shale Oil Play are in the Independent Technical Expert's Report in Section 4.

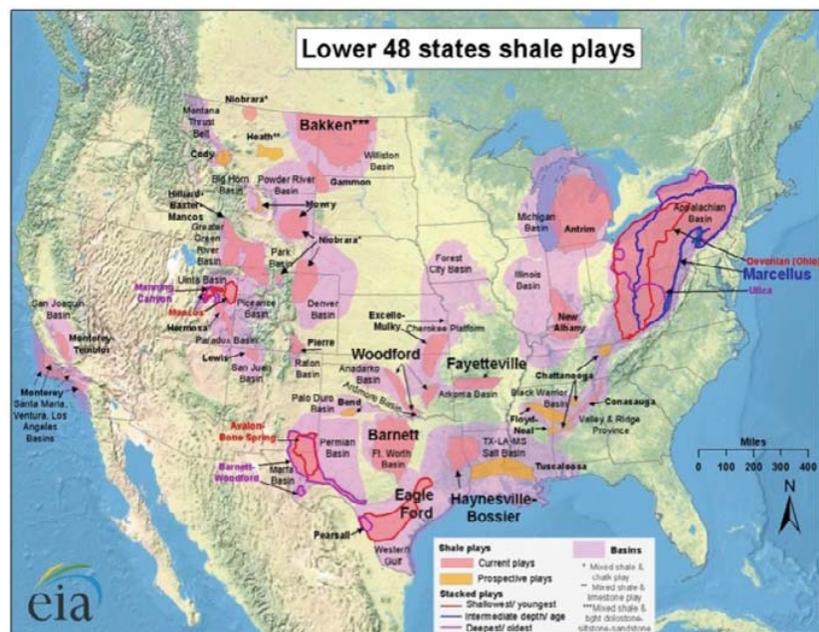
The Cline Shale Oil Play contains an organic-rich shale, with total organic content of 1% to 8%, with silt and sand beds mixed. The shale is between 60-150 metres (200-550 feet) thick. This contrasts to the Bakken Field in North Dakota where the pay zone is often only 10-25 m thick. It lies in a broad shelf, with minimal relief, and is located at a depth where the right temperature and pressure allowed the organic matter to transform to oil. The oil is generally light with an API gravity of 38 to 42 degrees. The target zones in the shale have excellent porosity in the range of 6-12%. Production is 85% oil and liquids-rich gas, with highly competitive operating costs. Horizontal drilling and other technological advances are now being used to unlock the resource that still remains in place.

The Cline Shale Oil Play first achieved success in the deeper part of the basin west of the Eastern Shelf. Recent drilling has progressed towards and onto the Eastern Shelf area with a best 24 hour initial production (IP) result of 1,497 boe from Firewheel Energy's H&H Ranch 41 horizontal well, which is 40 miles to the south-west of the Thomas Well.

Within the Van Hoogen Oil Project Area, there are additional conventional and unconventional plays. The Ellenburger "E" Interval is a well-documented target zone contained within the region, which is, with the Strawn interval (also within the Van Hoogen Oil Project Area), productive in vertical wells immediately adjacent to the Thomas Well and Van Hoogen Oil Project Leases. This "stacked play" situation considerably reduces exploration risk in the Company's lease areas. In addition, the Canyon and Barnett Shale Equivalent (Atoka) target zones may also be productive within the Van Hoogen Oil Project Area.

Devon Energy Corporation (NYSE:DVN, market capitalisation of US\$31.9 billion) is producing oil from nearby recent wells in the Cline Shale and oil has been produced for many years from Ellenburger "E" Interval oil fields immediately adjacent to the Thomas Well and the Van Hoogen Oil Project Leases.

Laredo (NYSE:LPI, market capitalisation of US\$4.1 billion), Firewheel (funded by private equity firm EnCap), Pioneer (NYSE:PXD, market capitalisation of US\$32.8B billion), Apache (NYSE:APA, market capitalisation of US\$39.1 billion),



Source: Energy Information Administration based on data from various published studies. Updated: May 5, 2011

The above diagram shows the USA "Lower 48 States" shale gas plays, including the Permian Basin.



Range Resources (NYSE:RRC, market capitalisation of US\$18.8 billion) and others have leased large tracts and are drilling horizontal wells in the Cline Shale with increasing success.

Refer to the Independent Technical Expert's Report in Section 4 for further details on the regional geology of the Van Hoogen Oil Project Area.

## 1.7 CEP AND THE VAN HOOGEN OIL PROJECT LEASES

### (a) Background to Texan oil and gas leases legal regime

In Texas, the owner of land also owns the oil, gas and other minerals beneath his/her tract, unless a severance has occurred resulting in two distinct estates: the surface estate and the mineral estate. This "ownership in place" doctrine provides that the oil, gas and other minerals beneath a tract of land are a part of the realty until produced, and then personal property when brought to the surface. A severance of the minerals may result from a conveyance or reservation of all, or a portion, of the "oil, gas and other minerals" in and to a specific tract.

Because the mineral estate is considered real property, it may be acquired, divested, encumbered, devised and inherited, thereby resulting in the possibility that an unlimited number of mineral owners may own undivided interests in a tract's minerals. The owner of a mineral estate, whether severed or not, possesses five fundamental rights:

- (i) the right to develop the mineral estate;
- (ii) the right to lease the mineral estate;
- (iii) the right to receive bonus payments for leasing the mineral estate;
- (iv) the right to receive delay rentals when the mineral estate is leased; and
- (v) the right to receive royalty payments for minerals produced.

A mineral owner's right to develop includes the exploration, drilling, production and marketing of the minerals. Given the inherent risk, cost of development and required technology to produce oil and gas, most mineral owners do not independently develop their mineral estate, but rather transfer their mineral estate to a third party. The conveyance of this right to develop is normally accomplished by an oil and gas lease, by which a mineral owner (the "lessor") conveys a present interest in the mineral estate to a third party (the "lessee"). The oil and gas lease serves as both a conveyance and a contract which establishes the parties' rights and obligations. Additionally, the execution of an oil and gas lease creates two additional estates: the leasehold estate and the royalty interest. The lessor retains the royalty interest, being the owner's expense-free share of production, while the lessee acquires the working interest, or the cost bearing interest, which provides the lessee the right to develop the oil and gas at its sole risk and expense. The leasehold estate created by the oil and gas lease may be conveyed, assigned and encumbered similar to any other real estate, and it is common for the original lessee to assign an undivided working interest to numerous parties.

Refer to Section 5 for further details of the oil and gas title regime in Texas.

### (b) CEP and the Van Hoogen Oil Project Leases

At completion of the Acquisition and the Offer, CEP will hold an 80% working interest in the Van Hoogen Oil Project Leases (with 80% of 4,647 gross acres being 3,717 net acres).

As the original mineral owners of the Van Hoogen Oil Project Leases retain a 25% revenue interest in them, CEP will hold a net revenue interest of 60% (being 80% of the 75% net revenue interest) in the Van Hoogen Oil Project Leases.

CEP will acquire the aforementioned interests in the Van Hoogen Oil Project Leases via a series of transactions as follows:

- (i) the Van Hoogen Oil Project Leases were originally acquired by CraRuth and MCG Drilling from the original mineral rights holders;

# 1. OVERVIEW OF THE COMPANY (cont.)

- (ii) on 15 January 2013, CraRuth, MCG Drilling and Amerril Energy LLC (**Amerril**) entered into an acreage purchase letter agreement (**Acreage Purchase Agreement**), pursuant to which CraRuth and MCG Drilling assigned an 80% working interest in the Van Hoogen Oil Project Leases to Amerril;
- (iii) Amerril subsequently assigned a 40% working interest in one portion of the Van Hoogen Oil Project Leases and an 80% working interest in another portion of the Van Hoogen Oil Project Leases to Carina, which Carina then held on behalf of the Vendors;
- (iv) on 24 June 2014, Amerril assigned all right, title and interest in and to its remaining 40% working interest in the Van Hoogen Oil Project Leases to ESPB Investments Inc. (**ESPB**), a company ultimately controlled by Mr Yang Xiangyang (refer to Section 10.8 for more information in respect to Mr Yang Xiangyang);
- (v) on 24 June 2014, ESPB and CEP entered into a contribution agreement (**ESPB Contribution Agreement**), pursuant to which ESPB agreed to assign its recently acquired 40% working interest in a certain portion of the Van Hoogen Oil Project Leases to CEP; and
- (vi) on 4 June 2014, Carina, the Vendors and CEP entered into a contribution agreement (**Vendor Contribution Agreement**), pursuant to which Carina, on behalf of the Vendors, agreed to assign its 40% working interest in one portion of the Van Hoogen Oil Project Leases and its 80% working interest in another portion of the Van Hoogen Oil Project Leases to CEP.

Refer to Section 8 for further details of the Acreage Purchase Agreement, the ESPB Contribution Agreement and the Vendor Contribution Agreement.

The Acquisition will be completed prior to completion of the Offer.

An obligation which accompanies the Company's 80% working interest in the Van Hoogen Oil Project Leases is the requirement for the Company to free carry CraRuth and MCG Drilling for the cost of the first well. The cost of any second and subsequent well(s) will be borne by the Company (through CEP) as to 80% and to CraRuth and MCG Drilling as to 20%.

Following completion of the Acquisition and the Offer, the Company intends to:

- (i) negotiate and execute a joint operating agreement with CraRuth and MCG, which will define the working interest owners' relationship, rights and obligations for the mutual development of the Van Hoogen Oil Project Leases; and
- (ii) seek farm-in joint venture participants to share the risk of, and contribute funding to, the cost of drilling wells on the Van Hoogen Oil Project Leases (which process, as at the date of this Prospectus, has commenced).

## 1.8 MARKET OVERVIEW

The outlook for oil and gas demand is reasonable based on the outlook for global growth. Increasing oil consumption, continuing political tensions in the Middle East and persistently low OPEC spare capacity is expected to underpin West Texas Intermediate (**WTI**) oil prices of between US\$85 to US\$105 per bo. In 2013, world oil consumption was approximately 90 MMbbl a day. In 2010, fossil fuels accounted for more than 80% of all the energy consumed in the USA, of which petroleum and other liquids account for 37%. The world oil market has remained strong in recent years despite a slight contraction in the United States demand for oil and petroleum products coincident with the slowdown in the broader world and USA economic growth rates.

## 1.9 EXPLORATION PROGRAM AND BUDGET

As detailed in Section 1.7, as at the date of this Prospectus, the Company has commenced the process of seeking to identify suitable farm-in joint venture participants with whom it can engage in negotiations to reach agreement on the terms and conditions on which such participants may contribute to the funding of the:

- (a) proposed drilling program on the Van Hoogen Oil Project Leases (see below); and
- (b) costs associated with the potential acquisition of further oil and gas leases within the Van Hoogen Oil Project Area.



The Company is confident that it will be able to identify and reach agreement with a suitable farm-in joint venture participant.

The following proposed exploration program in respect to the Company's interests in the Van Hoogen Oil Project Leases has been recommended by the Company's technical advisors. It details the expected use of funds over a two year period across three different scenarios (each a function of the amount of funds raised pursuant to the Offer) and, notwithstanding the Company's aforementioned expectation that it will identify and reach agreement with a suitable farm-in joint venture participant, assumes that the Company sole funds its exploration activities (i.e. it does not reach agreement with a suitable farm-in joint venture participant).

Technical Activity	A\$10,000,000 raised (A\$)	A\$15,000,000 raised (A\$)	A\$20,000,000 raised (A\$)
Drilling Program in first 12 months after Listing on ASX	\$1,600,000	\$4,400,000	\$5,680,000
Drilling Program 12 to 24 months after Listing on ASX	\$1,600,000	\$4,400,000	\$5,680,000
<b>Total Exploration and Development Expenditure<sup>P</sup></b>	<b>\$3,200,000<sup>A</sup></b>	<b>\$8,800,000<sup>B</sup></b>	<b>\$11,360,000<sup>C</sup></b>

**Notes:**

- A In the event the minimum subscription of A\$10,000,000 is raised pursuant to the Offer, then the Company will only drill one Ellenburger "E" Interval well in the first 24 months after listing on ASX at an approximate total well cost of A\$3,200,000. This cost will be borne solely by the Company since the two entities holding the remaining 20% working interest in the Van Hoogen Oil Project Leases, being CraRuth and MCG Drilling do not have to contribute 20% of this drilling cost since they are free carried on the first well.
- B In the event A\$15,000,000 is raised pursuant to the Offer, then the Company will drill in the first 24 months after listing on ASX, one Ellenburger "E" Interval well (with an approximate total well cost of A\$3,200,000) followed by a second fraced horizontal well into the Cline Shale (with an approximate total well cost of A\$7,000,000) with the total well expenditure amounting to A\$10,200,000 for which the Company's share would be A\$8,800,000. It also assumes that CraRuth and MCG Drilling contribute to 20% of the cost of the second well but are free carried on the first well.
- C In the event A\$20,000,000 is raised pursuant to the Offer, the Company will drill in the first 24 months after listing on ASX, one Ellenburger "E" Interval well (with an approximate total well cost of A\$3,200,000) followed by a second fraced horizontal well into the Cline Shale (with an approximate total well cost of A\$7,000,000) followed by a third Ellenburger "E" Interval well (with an approximate total well cost of A\$3,200,000) with the total well expenditure amounting to A\$13,400,000 for which the Company's share would be A\$11,360,000. It also assumes that CraRuth and MCG Drilling contribute to 20% of the cost of the second and third wells but are free carried on the first well.
- D In the event that the Company can attract farm-in partners to share the risk and cost of drilling wells on the Van Hoogen Oil Project Leases on suitable terms, the Company will in those circumstances drill additional wells on a shared risk basis, with the number of additional wells to be drilled and their type solely dependent on the size and terms of any such farm-in.

Further details in respect to the application of funds raised from the Offer are detailed in Section 3.6 and the Independent Technical Expert's Report in Section 4.

## 2. BOARD AND MANAGEMENT

### 2.1 DIRECTORS AND OFFICERS

The names and details of the Directors and officers at the date of this Prospectus are:

#### **Mr Peter Allchurch – Non-Executive Chairman**

Mr Allchurch is a geologist and resource venture capitalist and is the Non-Executive Chairman of the Company. He has 48 years of experience in mineral and petroleum exploration, development and production. Based in Perth, Australia he has experience in more than 15 countries and has founded or co-founded a number of successful ASX listed public companies in the oil and gas and mineral sectors including, but not limited to, Cape Range Oil, Amity Oil, Aurora Oil & Gas Ltd and Eureka Energy Ltd (with the latter two companies having oil assets located in the Eagle Ford Shale, Texas, USA). Mr Allchurch has a BSc. (Geology) from the University of Adelaide and is a Member of the Petroleum Exploration Society of Australia, as well as a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Allchurch is currently a private investor in, and developer of, oil and gas properties and a consultant to independent oil opportunities and companies.

#### **Mr Neville Henry – Managing Director**

Mr Henry is a petroleum geologist with more than 40 years' experience in the global oil and gas industry and is the Managing Director of the Company. Mr Henry has been based in Houston, Texas, USA for more than 25 years. Mr Henry has experience in oil in more than 30 countries and has directly led oil exploration teams responsible for oil and gas discoveries across 6 basins and 4 countries for total discovered reserves of more than 4 billion barrels of oil. He worked for Anadarko for 12 years, most notably as International Exploration Manager and Worldwide Business Development Manager, and was part of the core team that built this non-US oil production business from 25,000 bopd to 400,000 bopd. Prior to his roles at Anadarko, Mr Henry worked at Adobe Petroleum, Marathon Oil and UNOCAL. Mr Henry has managed joint ventures involving 45 oil and gas companies, including majors, large and small oil independents and foreign and domestic oil companies, and has been responsible for all technical, business, financial and personnel aspects of their respective businesses. For many years, Mr Henry has been a private investor in, and developer of, oil and gas properties and a consultant to independent oil companies. Mr Henry has a BA (Honours) in geology from Macquarie University, and is registered in Texas as a Professional Geoscientist.

#### **Mr James Hodges – Non-Executive Director**

Mr Hodges is an engineer based in Texas, USA with more than 40 years of oil field experience, having drilled and/or completed oil, high-pressure gas, saltwater disposal, injection, water source, hazardous waste injection and geothermal wells in Texas and Louisiana in reservoirs from sand to carbonates. As the owner of Hodges Engineering Inc., Mr Hodges is currently active in oil and gas exploration and production in Texas and provides engineering consulting services to the Texan energy, financial and environmental industries. Mr Hodges graduated from Texas A&M University in 1970 with a degree in mechanical engineering, and is registered in Texas as a Professional Engineer.

#### **Mr John D. Kenny – Non-Executive Director**

Mr Kenny is a lawyer by profession and holds a Bachelor of Commerce (Hons) and Bachelor of Laws from the University of Western Australia. Through his practise of corporate and mining law and investment banking, Mr Kenny has advised a number of ASX listed public companies in the areas of equity and debt finance. Mr Kenny has been a venture capital investor in several ASX mining and oil floats and also has experience in a number of sectors of Australian agribusiness, with involvement both as a director and as an investor.

#### **Mr Nicholas Calder – Company Secretary**

Mr Calder is a chartered accountant and registered company auditor. He was a partner of PKF Mack & Co from 2006 to 2012 before commencing NK Advisory, which provides corporate, company secretarial and financial services to a number of oil and gas, mining and manufacturing companies based in Perth, Western Australia. Mr Calder graduated from the University of Western Australia with a Bachelor of Commerce.

### 2.2 MANAGEMENT TEAM

Mr Neville Henry is the Managing Director of the Company. Mr Henry will manage the day-to-day business and operations of the Company whilst working in close consultation with Mr Peter Allchurch, the Chairman of the Company. A number of highly experienced Houston based



oil and gas consultants, contractors and advisers will report directly to Mr Henry and will participate in the management of the Company. As the Company's operations expand in size, nature and scope, the size and composition of the Board will be reviewed and the Board may seek to appoint persons who, in the opinion of the Board, will provide specialist expertise required for the Board to adequately perform its role.

### 2.3 ASX CORPORATE GOVERNANCE COUNCIL PRINCIPLES AND RECOMMENDATIONS

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the Company's policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**Recommendations**).

In light of the Company's size and nature, the Board considers that the current Board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined below, and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section of the Company's website at [www.winchesterenergy.com](http://www.winchesterenergy.com).

#### (a) Board of Directors

The Board is responsible for the corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. Clearly articulating the division of responsibilities between the Board and management will help manage expectations and avoid misunderstandings about their respective roles and accountabilities.

In general, the Board assumes (amongst others) the following responsibilities:

- (i) providing leadership and setting the strategic objectives of the Company;
- (ii) appointing and when necessary replacing the CEO;
- (iii) approving the appointment and when necessary replacement, of other senior executives;
- (iv) overseeing management's implementation of the Company's strategic objectives and its performance generally;
- (v) approving operating budgets and major capital expenditure;
- (vi) overseeing the integrity of the company's accounting and corporate reporting systems including the external audit;
- (vii) overseeing the company's process for making timely and balanced disclosure of all material information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- (viii) ensuring that the Company has in place an appropriate risk management framework and setting the risk appetite within which the board expects management to operate; and
- (ix) monitoring the effectiveness of the Company's governance practices.

The Company is committed to ensuring that appropriate checks are undertaken before the appointment of a Director and has in place written agreements with each Director and senior executive, setting out the terms of their appointment.

#### (b) Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. The Board currently consists of one Non-Executive Chairman, two Non-Executive Directors and only one Executive Director (who is the Managing Director of the Company). As the Company's activities develop in size, nature and scope, the composition of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

## 2. BOARD AND MANAGEMENT (cont.)

### (c) Identification and management of risk

The Board's collective experience will assist in the identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

### (d) Ethical standards

The Board is committed to the establishment and maintenance of appropriate ethical standards.

### (e) Independent professional advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

### (f) Remuneration Committee

The remuneration of any Executive Director (which includes the Managing Director) will be decided by the Board following the recommendation of the Remuneration Committee, without the affected Executive Director or Managing Director participating in that decision-making process. The Remuneration Committee is currently comprised of the Non-Executive Chairman and the two Non-Executive Directors.

The Constitution provides that the Directors will be paid by way of remuneration for their services as Directors a sum not exceeding such fixed sum per annum as may be determined by the Directors prior to the first annual general meeting of the Company or pursuant to a resolution passed at a general meeting of the Company (subject to complying with the Corporations Act and the Listing Rules, as applicable). The Directors have not yet determined a maximum remuneration sum.

At the General Meeting, approval will be sought from Shareholders to set the maximum aggregate remuneration payable to Directors at A\$1,000,000 per annum. The determination of Non-Executive Directors' remuneration within that maximum aggregate sum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director.

In addition, subject to any necessary Shareholder approval, a Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director (e.g. non-cash performance incentives such as options).

Directors are also entitled to be paid reasonable travel and other expenses incurred by them in the course of the performance of their duties as Directors.

The Remuneration Committee reviews and approves the Company's remuneration policy in order to ensure that the Company is able to attract and retain executives and Directors who will create value for Shareholders, having consideration to the amount considered to be commensurate for an entity of the Company's size and level of activity as well as the relevant Directors' time, commitment and responsibility.

The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

### (g) Trading policy

The Board has adopted a policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel (i.e. Directors and, if applicable, any employees reporting directly to the Managing Director). The policy generally provides that the written acknowledgement of the Chairman (or the Board in the case of the Chairman) must be obtained prior to trading.



**(h) Diversity policy**

The Board values diversity and recognises the benefits it can bring to the organisation’s ability to achieve its goals. Accordingly, the Company has set in place a diversity policy. This policy outlines the Company’s diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company’s progress in achieving them.

**(i) Audit Committee**

The Company has established an Audit Committee which operates under an Audit Charter which includes, but is not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company’s internal financial control system and the Company’s risk management systems and the external audit function. The Audit Committee is currently comprised of the Non-Executive Chairman and the two Non-Executive Directors.

**(j) External audit**

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors following the recommendation from the Audit Committee.

**2.4 DEPARTURES FROM RECOMMENDATIONS**

Following admission to the Official List, the Company will be required to report any departures from the Recommendations in its annual financial report.

The Company’s compliance and departures from the Recommendations as at the date of this Prospectus are detailed in the table below.

PRINCIPLES AND RECOMMENDATIONS		COMMENT
<b>1</b>	<b>LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT</b>	
<b>1.1</b>	Companies should disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the board and those delegated to management	The Board has adopted a formal charter setting out the responsibilities of the Board. This charter can be accessed at: <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a>
<b>1.2</b>	Companies should undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director and should provide shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	The Company has undertaken appropriate police, credit and other relevant checks prior to the appointment of the Directors.
<b>1.3</b>	Companies should have a written agreement with each director and senior executive setting out the terms of their appointment.	Written agreements have been entered into with all Directors and senior management.
<b>1.4</b>	The company secretary should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	A written agreement with the Company Secretary provides for this.

## 2. BOARD AND MANAGEMENT (cont.)

PRINCIPLES AND RECOMMENDATIONS	COMMENT
<b>1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (CONT.)</b>	
<p><b>1.5</b> Companies should:</p> <ul style="list-style-type: none"> <li>• have a diversity policy which includes requirements for the board to set measurable objectives for achieving gender diversity and assess both the objectives and the company's progress in achieving them;</li> <li>• disclose that policy or a summary of it; and</li> <li>• disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board in accordance with the company's diversity policy and its progress towards achieving them either:               <ul style="list-style-type: none"> <li>- the respective proportions of men and women on the board, in senior executive positions and across the whole organisation; or</li> <li>- the company's 'Gender Equality Indicators' as defined in the Workplace Gender Equality Act 2012.</li> </ul> </li> </ul>	<p>The Company has adopted a Diversity Policy which can be accessed at <a href="http://www.winchesterenergytld.com">www.winchesterenergytld.com</a></p> <p>The diversity policy will be disclosed in the Directors' Report which forms part of the Annual Report. The Company's policies can be accessed at <a href="http://www.winchesterenergytld.com">www.winchesterenergytld.com</a></p>
<p><b>1.6</b> Companies should disclose the process for evaluating the performance of the board, its committees and individual directors and disclose in relation to each reporting period whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>The performance evaluation of Board members occurs in accordance with the Board's Performance Evaluation Policy can be accessed at <a href="http://www.winchesterenergytld.com">www.winchesterenergytld.com</a></p>
<p><b>1.7</b> Companies should disclose a process for periodically evaluating the performance of its senior executives and disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>The Board will meet annually to review the performance of executives. The senior executives' performance is to be assessed against the performance of the Company as a whole.</p>
<b>2 STRUCTURE THE BOARD TO ADD VALUE</b>	
<p><b>2.1</b> Companies should have a nomination committee which:</p> <ul style="list-style-type: none"> <li>• has at least 3 members, a majority of whom are independent directors; and</li> <li>• is chaired by an independent director;</li> </ul> <p>and disclose:</p> <ul style="list-style-type: none"> <li>• the charter of the committee;</li> <li>• the members of the committee; and</li> <li>• as at the end of each reporting period the number of times the committee met throughout the period and the individual attendances of the members at those meeting.</li> </ul>	<p>The Board has established a Remuneration and Nomination Committee and has adopted a formal Charter. The Remuneration Committee and Nomination is currently comprised of the Non-Executive Chairman (who is not independent) and two Non-Executive Directors (only one of whom is independent).</p>



PRINCIPLES AND RECOMMENDATIONS		COMMENT
<b>2 STRUCTURE THE BOARD TO ADD VALUE (CONT.)</b>		
<b>2.2</b>	Companies should disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve its membership.	The skills, experience and expertise relevant to the position held by each Director will be disclosed in the Directors' Report which forms part of the Annual Report. The Company's policies can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a>
<b>2.3</b>	Companies should disclose: <ul style="list-style-type: none"><li>the names of the directors considered by the board to be independent directors;</li><li>if a director has an interest, position, association, or relationship affecting independent status but the board is of the opinion that it does not compromise the independent of the director; and</li><li>the length of service of each director.</li></ul>	A definition of director independence can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a> . The Board currently has only one independent Director and that is James Hodges.
<b>2.4</b>	A majority of the board of a company should be independent directors.	The Board currently has only one independent Director and that is James Hodges.
<b>2.5</b>	The chair should be an independent director and should not be the same person as the CEO of the company.	The Chairman is not independent. The Chairman is not the CEO of the Company.
<b>2.6</b>	Companies should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skill and knowledge needed to perform their role as directors effectively.	The Company has adopted a program for inducting new directors and providing appropriate professional development opportunities.
<b>3. ACT ETHICALLY AND RESPONSIBLY</b>		
<b>3.1</b>	Companies should establish a code of conduct and disclose the code or a summary of the code for its directors, senior executives and employees.	The Company has adopted a Code of Conduct and Diversity Policy which can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a>

## 2. BOARD AND MANAGEMENT (cont.)

PRINCIPLES AND RECOMMENDATIONS	COMMENT
<b>4. SAFEGUARD INTEGRITY IN CORPORATE REPORTING (CONT.)</b>	
<p><b>4.1</b> The board should establish an audit committee which:</p> <ul style="list-style-type: none"> <li>• has at least 3 members, all of whom are non-executive directors and a majority of whom are independent directors; and</li> <li>• is chaired by an independent director, who is not the chair of the board,</li> </ul> <p>and disclose:</p> <ul style="list-style-type: none"> <li>• the charter of the committee;</li> <li>• the relevant qualifications and experience of the members of the committee; and</li> <li>• in relation to each reporting period the number of times and committee met throughout the period and the individual attendances of the members at those meeting.</li> </ul>	<p>The Company has established an Audit Committee. The Company has an Audit Committee which consists of three members. The Board currently has a Non-Executive Chairman (but who is not independent) along with two Non-Executive Directors (of whom only one is independent). These 3 Directors constitute the Audit Committee. The Company Secretary acts as secretary to the committee and attends its meetings.</p> <p>The formal charter can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a></p>
<p><b>4.2</b> The board of a company should, before it, approves the company's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the company and the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	<p>The Board has adopted the policy that before it approves of the Company's financial statements for a financial period it will receive from its CEO and CFO a declaration that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company.</p>
<p><b>4.3</b> Companies that have an AGM should ensure that its external auditor attends its AGM and is available to answer question from shareholders relevant to the audit.</p>	<p>The Board has adopted the policy that it will request the Company's auditor to attend the Company's AGM.</p>
<b>5. MAKE TIMELY AND BALANCED DISCLOSURE</b>	
<p><b>5.1</b> Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and disclose that policy or a summary of it.</p>	<p>The Company has adopted a Continuous Disclosure Policy which can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a></p>
<b>6. RESPECT THE RIGHTS OF SECURITY HOLDERS</b>	
<p><b>6.1</b> Companies should provide information about itself and its governance to investors via its website.</p>	<p>Information on the Company can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a></p>
<p><b>6.2</b> Companies should design and implement an investor relations program to facilitate effective two way communications with investors.</p>	<p>The Company has adopted a Shareholder Communications Policy which can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a></p>



	PRINCIPLES AND RECOMMENDATIONS	COMMENT
<b>6. RESPECT THE RIGHTS OF SECURITY HOLDERS (CONT.)</b>		
6.3	Companies should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of shareholders.	The Company has adopted a Shareholder Communications Policy which can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a>
6.4	Companies should give shareholders the option to receive communications from, and send communications to, the company and its share registry electronically.	The Company has adopted a Shareholder Communications Policy which can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a>
<b>7. RECOGNISE AND MANAGE RISK</b>		
7.1	<p>Companies should have a committee or committees to oversee risk, each of which:</p> <ul style="list-style-type: none"><li>• has at least 3 members, a majority of whom are independent directors; and</li><li>• is chaired by an independent director, and disclose:</li><li>• the charter of the committee;</li><li>• the members of the committee; and</li><li>• as at the end of each reporting period, the number of times and committee met throughout the period and the individual attendances of the members at those meeting.</li></ul>	<p>The Company has adopted a Risk Management Policy which can be accessed at <a href="http://www.winchesterenergyltd.com">www.winchesterenergyltd.com</a>. This policy outlines the key material risks faced by the Company as identified by the Board.</p> <p>The Managing Director/CEO (equivalent) and Chief Financial Officer (equivalent) report to the Board on the areas they are responsible for, including material business risks and provide an annual written report to the Board summarizing the effectiveness of the companies' management of material business risks.</p>
7.2	The board or a committee of the board should review the company's risk management framework at least annually to satisfy itself that it continues to be sound and disclose in relation to each reporting period, whether such a review has taken place.	The Board receives assurance in the form of a declaration, from the Managing Director/CEO and Chief Financial Officer (equivalent) as required by the Corporations Act.
7.3	Companies should disclose if it has an internal audit function, how the function is structured and what role it performed.	The Company due to its size does not have an internal audit department.
7.4	Companies should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.	The risks the Company faces are set out in Section 9 of this Prospectus.

## 2. BOARD AND MANAGEMENT (cont.)

PRINCIPLES AND RECOMMENDATIONS	COMMENT
<b>8. REMUNERATE FAIRLY AND RESPONSIBLY</b>	
<p><b>8.1</b> The board should establish a remuneration committee which:</p> <ul style="list-style-type: none"> <li>• has at least 3 members, a majority of whom are independent directors; and</li> <li>• is chaired by an independent director;</li> </ul> <p>and disclose:</p> <ul style="list-style-type: none"> <li>• the charter of the committee;</li> <li>• the members of the committee; and</li> <li>• as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members of those meetings.</li> </ul>	<p>The Company has established a Remuneration and Nomination Committee under a formal charter.</p> <p>The Company has a Remuneration Committee which consists of three members. The Board currently has a Non-Executive Chairman (but who is not independent) along with two Non-Executive Directors (of whom only one is independent). These 3 Directors constitute the Remuneration and Nomination Committee. The Company Secretary acts as secretary to the committee and attends its meetings.</p>
<p><b>8.2</b> Companies should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	<p>The structure of Non-Executive Directors' remuneration is clearly distinguished from that of Executive Directors and senior executives and will be described in the Directors' Report which forms part of the Annual Report.</p>
<p><b>8.3</b> Companies with an equity based remuneration scheme should:</p> <ul style="list-style-type: none"> <li>• have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</li> <li>• disclose that policy or a summary of it.</li> </ul>	<p>The Company has yet to adopt any equity based remuneration scheme. When it does the details of the scheme will be disclosed in the Annual Report.</p>

## 3. DETAILS OF THE OFFER

### 3.1 THE OFFER

This Prospectus invites investors to apply for 75,000,000 Shares at an issue price of A\$0.20 each to raise A\$15,000,000 (before associated costs).

The Offer is subject to a minimum subscription of A\$10,000,000 (refer to Section 3.2 for further details).

The Company will accept oversubscriptions in respect of the Offer for up to 25,000,000 additional Shares at an issue price of A\$0.20 each to raise an additional A\$5,000,000 (before associated costs). If this occurs, the total raising under the Offer will comprise 100,000,000 Shares at an issue price of A\$0.20 each to raise A\$20,000,000 (before associated costs).

All Shares offered under this Prospectus will rank equally with the existing Shares on issue. Refer to Section 11.1 for details of the rights attaching to Shares.

### 3.2 MINIMUM SUBSCRIPTION

The minimum total subscription under the Offer is A\$10,000,000 (being 50,000,000 Shares) (**Minimum Subscription**).

None of the Shares offered under this Prospectus will be issued if Applications are not received for the Minimum Subscription. Should Applications for the Minimum Subscription not be received within three months from the date of this Prospectus, the Company will either repay the Application Monies (without interest) to Applicants or issue a supplementary prospectus or replacement prospectus and allow Applicants one month to withdraw their Applications and have their Application Monies be repaid to them (without interest).

### 3.3 OFFER CONDITIONAL

Completion of the Offer is subject to and conditional upon:

- (a) the Minimum Subscription being achieved; and
- (b) the completion of the Acquisition (refer to Section 8.1 for details of the Acquisition and the conditions precedent for its completion).

If the above conditions are not met, the Company will not proceed with the Offer and Application Monies will be returned to Applicants (without interest).

### 3.4 OBJECTIVES OF THE COMPANY

The Company's main objectives on completion of the Acquisition and the Offer are to:

- (a) develop and add value to its interests in the Thomas Well and the Van Hoogen Oil Project Leases (refer to Sections 1.3, 1.4, 1.7(b) and 1.9);
- (b) identify, and reach agreement with, a suitable farm-in joint venture participant to contribute funding (with the Company) in respect to:
  - (i) the proposed drilling program within the Van Hoogen Oil Project Leases; and
  - (ii) the potential acquisition of further oil and gas lease interests within the Van Hoogen Oil Project Area (refer to Sections Section 1.5 and 1.9).

### 3.5 PURPOSE OF PROSPECTUS

The purpose of this Prospectus is to:

- (a) raise A\$15,000,000 pursuant to the Offer (assuming a subscription for 75,000,000 Shares at an issue price of A\$0.20 each);
- (b) facilitate an application by the Company for admission of the Company to the Official List and assist the Company to meet the requirements of ASX and satisfy Chapters 1 and 2 of the Listing Rules; and
- (c) position the Company to seek to achieve the objectives detailed in Section 3.4.

## 3. DETAILS OF THE OFFER (CONT.)

### 3.6 FUNDING ALLOCATION

As at 1 August 2014, CEP had nil cash reserves while the Company had cash reserves of approximately A\$200,000. It is anticipated that the Company will have, prior to completion of the Acquisition and the Offer, cash reserves of approximately A\$200,000.

Following the completion of the Acquisition and the Offer, the Company intends to apply its cash reserves:

- (a) to drilling wells in the Van Hoogen Oil Project Leases (refer to Section 1.9);
- (b) for the purchase of additional oil and gas leases and/or working interests within the Van Hoogen Oil Project Area (refer to Section 1.5); and
- (c) for general working capital.

The Board believes that, following completion of the Offer, it will have sufficient available funds to achieve its stated objectives as detailed in this Prospectus.

The following table shows the expected use of funds over a two year period following admission of the Company to the Official List across three different scenarios (each a function of the amount of monies raised by way of the Offer):

Use of Funds	A\$10,000,000 raised (A\$)	A\$15,000,000 raised (A\$)	A\$20,000,000 raised (A\$)
Cash reserves as at the date of this Prospectus	\$200,000 <sup>A</sup>	\$200,000 <sup>A</sup>	\$200,000 <sup>A</sup>
Funds raised from the Offer	\$10,000,000	\$15,000,000	\$20,000,000
<b>Total funds available</b>	<b>\$10,200,000</b>	<b>\$15,200,000</b>	<b>\$20,200,000</b>
Exploration and development expenditure <sup>F</sup>	\$3,200,000 <sup>B</sup>	\$8,880,000 <sup>C</sup>	\$11,360,000 <sup>D</sup>
Administration expenses	\$1,000,000	\$1,000,000	\$1,000,000
Repay Director Loans <sup>G</sup>	\$400,000	\$400,000	\$400,000
Unallocated working capital	\$600,000	\$600,000	\$600,000
Expenses of the Offer <sup>E</sup>	\$839,061	\$1,143,786	\$1,448,511
Acquisition of additional oil and gas leases and/or working interests within the Van Hoogen Oil Project Area	\$4,160,939	\$3,256,214	\$5,391,489
<b>Total funds allocated</b>	<b>\$10,200,000</b>	<b>\$15,200,000</b>	<b>\$20,200,000</b>

#### Notes:

- A Based on account balances as at 31 May 2014, adjusted for subsequent movements and anticipated expenses prior to completion of the Acquisition. Please refer to the Investigating Accountant's Report in Section 6 for further details.
- B In the event the minimum subscription of A\$10,000,000 is raised pursuant to the Offer, then the Company will only drill one Ellenburger "E" Interval well in the first 24 months after listing on ASX at an approximate total well cost of A\$3,200,000. This cost will be borne solely by the Company since the two entities holding the remaining 20% working interest in the Van Hoogen Oil Project Leases, being CraRuth and MCG Drilling do not have to contribute 20% of this drilling cost since they are free carried on the first well.
- C In the event A\$15,000,000 is raised pursuant to the Offer, then the Company will drill in the first 24 months after listing on ASX, one Ellenburger "E" Interval well (with an approximate total well cost of A\$3,200,000) followed by a second fraced horizontal well into the Cline Shale (with an approximate total well cost of A\$7,000,000) with the total well expenditure amounting to A\$10,200,000 for which the Company's share would be A\$8,800,000. It also assumes that CraRuth and MCG Drilling contribute to 20% of the cost of the second well but are free carried on the first well.
- D In the event A\$20,000,000 is raised pursuant to the Offer, the Company will drill in the first 24 months after listing on ASX, one Ellenburger "E" Interval well (with an approximate total well cost of A\$3,200,000) followed by a second fraced horizontal well into the Cline Shale (with an approximate total



well cost of A\$7,000,000) followed by a third Ellenburger “E” Interval well (with an approximate total well cost of A\$3,200,000) with the total well expenditure amounting to A\$13,400,000 for which the Company’s share would be A\$11,360,000. It also assumes that CraRuth and MCG Drilling contribute to 20% of the cost of the second and third wells but are free carried on the first well.

- E See Section 10.7 for the details of the expenses of the Offer.
- F In the event that the Company can attract farm-in partners to share the risk and cost of drilling wells on the Van Hoogen Oil Project Leases on suitable terms, the Company will in those circumstances drill additional wells on a shared risk basis, with the number of additional wells to be drilled and their type solely dependent on the size and terms of any such farm-in.
- G See Section 10.16 for further details.

Refer to Section 1.9 for specific details of the exploration and development expenditure proposed to be incurred by the Company.

Shareholders should note that the above estimated expenditures will be subject to modification on an ongoing basis depending on the results obtained from the Company’s activities in respect of its interests in the Thomas Well and the Van Hoogen Oil Project Leases. Due to market conditions, the development of new opportunities and/or any number of other factors (including the risk factors outlined in Section 9), actual expenditure levels may differ significantly to the above estimates. The Company also intends to capitalise on other acquisition opportunities as they arise, which may result in funds being incurred or required that exceed those amounts allocated to acquisition opportunities in the above table. To capitalise on future opportunities and depending on the success of its activities, the Company may require debt or further equity fundraisings.

### 3.7 CAPITAL STRUCTURE

On the basis that the Company completes the Acquisition and the Offer on the terms in this Prospectus, the Company’s capital structure will be as follows:

	Shares	Options	Class A Convertible Milestone Notes	Class B Convertible Milestone Notes	Class C Convertible Milestone Notes
Securities on issue as at the date of this Prospectus	56,416,672 <sup>A</sup>	16,000,000	9,000	18,000	27,000
Shares issued under the Offer	75,000,000	-	-	-	-
Vendor Securities to be issued on completion of the Acquisition <sup>C</sup>	51,000,000	14,000,000	1,000 <sup>B</sup>	2,000 <sup>B</sup>	3,000 <sup>B</sup>
Securities issued to consultants, brokers and Joint Lead Managers <sup>E</sup>	8,000,000	-	-	-	-
<b>Total</b>	<b>190,416,672<sup>F</sup></b>	<b>30,000,000<sup>P</sup></b>	<b>10,000</b>	<b>20,000</b>	<b>30,000</b>

#### Notes:

- A As at the date of this Prospectus, the Company has 56,416,672 Shares on issue. Refer to the Investigating Accountant’s Report in Section 6 for further details.
- B The Acquisition will result in the issue of a further 1,000 Class A Convertible Milestone Notes, 2,000 Class B Convertible Milestone Notes and 3,000 Class C Convertible Milestone Notes, each of which convert into 1,000 Shares upon the achievement of certain milestones. Refer to Sections 8.1, 11.3, 11.4 and 11.5 for further details.
- C A number of these Shares, Options and Convertible Milestone Notes are expected to be treated as restricted securities by ASX and will be subject to escrow. Refer to Section 3.17 for further details.
- D Refer to Section 11.2 for the terms and conditions of the Options.
- E Refer Sections 8.5 and 8.6 for further details.
- F Assumes the Offer is subscribed to the extent of 75,000,000 Shares issued at A\$0.20 to raise A\$15,000,000. The rights attaching to Shares are detailed in Section 11.1.

## 3. DETAILS OF THE OFFER (CONT.)

### 3.8 FORECASTS

Following completion of the Acquisition and the Offer, the Company will be an oil and gas exploration company. Due to the speculative nature of oil exploration, there are significant uncertainties associated with forecasting future revenues (if any) from the Company's proposed activities.

The Directors have considered the matters detailed in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

The Directors consequently believe that, given these inherent uncertainties, it is not possible to include a reliable forecast in this Prospectus.

Refer to Section 1 for further information in respect to the Company's proposed activities.

### 3.9 MINIMUM APPLICATION UNDER THE OFFER

Applications under the Offer must be for a minimum of 10,000 Shares (A\$2,000) and thereafter in multiples of 1,000 Shares (A\$200). Applications to subscribe for Shares under the Offer will only be accepted on an Application Form.

### 3.10 HOW TO APPLY

If you wish to apply for Shares under the Offer complete the Application Form. Completed Application Forms should be returned to the Company, together with the Application Monies in full, prior to 5.00pm (WST) on the Closing Date.

Completed Application Forms and Application Monies should be returned to the Company as follows:

#### Posted or Delivered To:

CPS Capital Group  
Level 45, BankWest Tower  
108 St Georges Terrace  
Perth WA 6000 Australia

or

Patersons Securities Limited  
Level 23, Exchange Plaza  
2 The Esplanade  
Perth WA 6000 Australia

Refer to the instructions on the back of the Application Form when completing your Application. Cheques must be made payable to "**Winchester Energy Limited – Share Application Account**" and crossed "**Not Negotiable**". All cheques must be in Australian currency.

An original completed and lodged Application Form, together with a cheque for the Application Monies, constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in the Application Form. The Application Form does not have to be signed to be a valid Application. An Application will be deemed to have been accepted by the Company upon allotment of the Shares.

The Offer may be closed at an earlier date and time at the discretion of the Company, without prior notice. Applicants are therefore encouraged to submit their Application Forms as early as possible. However, the Company reserves the right to extend the Closing Date for the Offer or accept late Applications.



### 3.11 ASX LISTING AND OFFICIAL QUOTATION

Within 7 days after the date of this Prospectus, the Company will apply to ASX for admission to the Official List and for the Shares, including those offered by this Prospectus, to be granted Official Quotation (apart from any Shares that may be designated by ASX as restricted securities).

If ASX does not grant permission for Official Quotation within 3 months after the date of this Prospectus (or within such longer period as may be permitted by ASIC) none of the Shares offered by this Prospectus will be allotted and issued. If no allotment and issue is made, all Application Monies will be refunded to Applicants (without interest).

If approval for Official Quotation is not granted within 3 months after the date of this Prospectus, the Company will not allot or issue any Shares, and will repay all Application Monies without interest as soon as practicable.

ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may grant Official Quotation is not to be taken in any way as an indication of the merits of the Company or the Shares offered pursuant to this Prospectus. ASX takes no responsibility for the contents of this Prospectus.

### 3.12 ALLOTMENT

Application Monies will be held in trust for Applicants until the allotment of the Shares. Any interest that accrues will be retained by the Company. No allotment of Shares under this Prospectus will occur unless:

- (a) the Minimum Subscription is achieved (refer to Section 3.2);
- (b) the Acquisition is completed (refer to Sections 1.4 and 8.1).
- (c) ASX grants conditional approval for the Company to be admitted to the Official List (refer to Section 3.11); and
- (d) all Shareholder approvals (being approvals from Shareholders as at the date of this Prospectus) required to complete the Acquisition are obtained (refer to Section 8.1).

The Company reserves the right to reject any Application or to issue a lesser number of Shares than those applied for. Where the number of Shares issued is less than the number applied for, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.

Subject to the matters in Section 3.11, Shares under the Offer are expected to be allotted on the Allotment Date. It is the responsibility of Applicants to determine their allocation prior to trading in the Shares issued under the Offer. Applicants who sell Shares before they receive their holding statements do so at their own risk.

### 3.13 CHESS

The Company proposes participating in the Clearing House Electronic Sub-register System (CHESS), operated by ASX Settlement Pty Ltd (a wholly owned subsidiary of ASX), in accordance with the Listing Rules and ASX Operating Rules. On admission to CHESS, the Company will operate an electronic issuer-sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together will make up the Company's register of Shareholders.

The Company will not issue certificates to Shareholders. Instead, as soon as is practicable after allotment, successful Applicants will receive a holding statement which sets out the number of Shares issued.

A holding statement will also provide details of a Shareholder's HIN (in the case of a holding on the CHESS sub-register) or SRN (in the case of a holding on the issuer sponsored sub-register).

Following distribution of these initial holding statements, an updated holding statement will only be provided at the end of any month during which changes occur to the number of Shares held. Shareholders may also request statements at any other time (although the Company may charge an administration fee).

## 3. DETAILS OF THE OFFER (CONT.)

### 3.14 DIVIDEND POLICY

The extent, timing and payment of any dividends in the future will be determined by the Directors based on a number of factors, including future earnings and the financial performance and position of the Company.

At the date of issue of this Prospectus, the Company does not intend to declare or pay any dividends in the immediately foreseeable future.

Any future determination as to the payment of dividends by the Company will be at the sole discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

### 3.15 RISK FACTORS OF AN INVESTMENT IN THE COMPANY

Prospective investors should be aware that an investment in the Company should be considered highly speculative and involves a number of risks inherent with oil and gas exploration and project development. Section 9 details the key risk factors which prospective investors should be aware of. It is recommended that prospective investors consider these risks carefully before deciding whether to invest in the Company.

This Prospectus should be read in its entirety as it provides information for prospective investors to decide whether to invest in the Company. If you have any questions about the desirability of, or procedure for, investing in the Company please contact your stockbroker, accountant or other independent adviser.

### 3.16 OVERSEAS APPLICANTS

No action has been taken to register or qualify the Shares, or the Offer, or otherwise to permit the public offering of the Shares, in any jurisdiction outside of Australia.

The distribution of this Prospectus within jurisdictions outside of Australia may be restricted by law and persons into whose possession this Prospectus comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws.

This Prospectus does not constitute an offer of Shares in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

It is the responsibility of any overseas Applicant to ensure compliance with all laws of any country relevant to his or her Application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty that there has been no breach of such law and that all necessary approvals and consents have been obtained.

### 3.17 RESTRICTED SECURITIES

Subject to the Company being admitted to the Official List, certain Shares, Options and Convertible Milestone Notes on issue prior to the Offer will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation. In addition, all or part of the Shares, Options and Convertible Milestone Notes to be issued to the Vendors (refer to Section 8.1 for further details) as consideration for the Acquisition may be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation. During the period in which these Shares, Options and Convertible Milestone Notes are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of their Shares in a timely manner.

The Company will announce to the ASX full details (quantity and duration) of the Shares, Options and Convertible Milestone Notes required to be held in escrow prior to the Shares commencing trading on ASX.

None of the Shares issued pursuant to the Offer are expected to be restricted securities.



### **3.18 UNDERWRITING**

The Offer is not underwritten.

The Offer is being managed by the Joint Lead Managers on the terms detailed in Section 8.5.

### **3.19 BROKERS AND COMMISSION**

The Company reserves the right to pay a commission of up to 6% (exclusive of GST) of amounts subscribed through any Australian financial services licensee in respect of any valid applications lodged and accepted by the Company and bearing the stamp of the Australian financial services licensee. Payment will be made subject to the receipt of a proper tax invoice from the Australian financial services licensee.

### **3.20 WITHDRAWAL**

The Directors may at any time decide to withdraw this Prospectus and the Offer in which case the Company will return all Application Monies (without interest) within 28 days of giving notice of their withdrawal.

### **3.21 ENQUIRIES**

This Prospectus provides information for potential investors in the Company, and should be read in its entirety. If, after reading this Prospectus, you have any questions about any aspect of an investment in the Company, please contact your stockbroker, accountant or independent financial adviser. Enquiries relating to this Prospectus, or requests for additional copies of this Prospectus, should be directed to the company secretary, Mr Nicholas Calder on (+61) 1300 133 921.

## 4. Independent Technical Expert's Report

### **INDEPENDENT TECHNICAL EXPERT'S REPORT**

Van Hoogen Oil Project

Eastern Shelf, Permian Basin, Texas, United States of America

Prepared for

**Winchester Energy Limited**

By

Ralph E. Davis Associates, Inc.





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## 4. Independent Technical Expert's Report (cont.)

RALPH E. DAVIS  
ASSOCIATES, INC.

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## Statement of Limitations

In the case of undiscovered resources or a subcategory of undiscovered resources, or disclosure of Prospective Resources:

*“The estimated quantities that may be potentially 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”.*

Note that when referring to Prospective Resources they are as yet undiscovered.

Note that with any resource volumes as stated in the report are on a before risk basis.

All currency is quoted in US Dollars (\$US). As the amounts quoted in this document are estimates, parity with Australian Dollars (\$A) has been assumed.

## 4. Independent Technical Expert's Report (cont.)



July 21, 2014

The Board of Directors  
Winchester Energy Limited  
Level 1  
100 Havelock Street  
West Perth WA 6005  
Australia

Gentlemen:

**Re: Van Hoogen Oil Project**

At your request, the firm of Ralph E. Davis Associates, Inc. has prepared this report that describes the geology for the Van Hoogen Oil Project (**Project**) located across Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties in Texas, USA (**Project Area**). The Project Area is located on the Eastern Shelf of the Permian Basin, Texas, USA.

We have reviewed the data provided by Winchester Energy Ltd and compared it with public data available for the area. The illustrations used in this report were supplied by Winchester Energy Ltd. The report focuses on the Cline Shale and the Ellenburger "E" horizons as the main targets for potential development.

There has been a recent surge in leasing and drilling in the Cline Shale in the Permian Basin, Texas, USA. This activity has moved up onto the Eastern Shelf where there is increased leasing, well permits and drilling for the Cline Shale in the Project Area. Devon Energy Corporation (**Devon**) has made a recent discovery from the Three Fingers Shale, a horizon in the Cline Shale. This well is located approximately 4 miles north of the Thomas 119-1H well in which Winchester Energy Limited has a 50%WI (reducing to a 25%WI after well payback i.e after cash return back to Winchester Energy Limited of US\$2m the WI reduces to 25%).



The primary target in the Project Area is the Upper Cline interval. However, the Lower Cline Shale is a high potential target as well. A comparison of core samples, well log data and Total Organic Content (TOC%) from wells drilled in the Project Area shows that the Lower Cline may be productive and may be a better target than the Three Fingers Shale tested in Devon's Harris M-1H well. Based on these results, we believe that the Lower Cline and the Three Fingers Shale may be productive in the Project Area.

In addition to the Cline Shale, the Ellenburger "E" zone is a known target in the Project Area. Numerous vertical wells have been producing from the Ellenburger "E" zone in the Suggs Field, averaging 108,000 barrels of oil per vertical well. The key to identifying prospective Ellenburger "E" zone locations is mapping the interval from the Ellenburger to the Cambrian using 3D seismic that defines the sub-crops and the thick zones where the best porosity is found. Winchester Energy Limited has access to this 3D seismic. This concept is illustrated in this report. With good 3D seismic data we believe that this zone can be developed within the Project Area.

Winchester Energy Limited currently owns a 50%WI in the Thomas 119-1H well in Nolan County, Texas. Well logs run after the vertical pilot hole portion of the Thomas 119-1H well was drilled, indicate two zones of potential pay in the Cline Shale (Three Fingers and Lower Penn), one zone of log-interpreted conventional pay in the Odom Limestone and log-interpreted pay in the Ellenburger "E". Subsequent to the completion of the vertical pilot hole, the Thomas 119-1H well has been drilled horizontally into the Ellenburger "E" interval along the subcrops just below the Cline Shale. The Thomas 119-1H well has reached a total depth (TD) of 10,265 feet after drilling just over 2,500 feet in the target zone of the Ellenburger "E" interval. Oil and gas shows were encountered throughout the targeted interval and independent log interpretation provided to this firm indicates just over 700 feet of potential pay zones. Production liner with swellable packers to isolate potential production zones has been successfully run to TD. Further completion and production testing operations will commence once the packers have set which takes several weeks.

We believe that the data reviewed and shown in this report and offset production and drilling success is evidence that the Project Area has targets to be developed. In addition to the Cline Shale and the Ellenburger "E" zone, the Canyon, Strawn and Atoka may be productive in the Project Area.

# 4. Independent Technical Expert's Report (cont.)

RALPH E. DAVIS  
ASSOCIATES, INC.

Thank you for giving us the opportunity to work on this job. If you have need of further assistance or have any questions please contact us.

Sincerely yours,



**Allen L Kelley**  
**Vice President**



## Executive Summary

### Van Hoogen Oil Project

The Lower Pennsylvania age Cline Shale is now in the spotlight as there has been a tremendous increase in leasing and drilling activity in the Midland Basin in Glasscock, Sterling, Howard, Mitchell, Coke and Nolan Counties, Texas. Devon Energy, Range Resources, Laredo Petroleum, Occidental Petroleum Corp, Energen, Firewheel Energy and others have leased huge tracts and are drilling numerous horizontal wells in the Cline Shale with good success.

This activity is just south-west of the counties that comprise the Project Area, which is located on the Eastern Shelf area of the Midland Basin where the Cline Shale is present and is correlative locally and regionally. Over the years wells drilled in southern Nolan County have had significant gas shows throughout the "Black Shale" interval, which is a horizon in the Cline formation. These shows correlate to high Gamma Ray, SP development, and high resistivity intervals. The Black Shale ranges in thickness from 0-600 feet throughout the area with a Total Organic Content (TOC) greater than 3% in some isolated areas. The average depth is 6,500 feet.

The Cline Shale oil play achieved success first in the deeper part of the basin west of the shelf. Recent drilling has progressed towards and onto the eastern shelf area with a best 24 hour IP result of 1,497 boe from Firewheel Energy's H&H Ranch 41 horizontal well which is 40 miles to the south-west of Winchester Energy Limited's assets.

There have been 25 horizontal Cline Shale locations posted since January 1, 2012 by operators such as Devon Energy and Laredo Petroleum.

In addition to the Cline Shale, the Ellenburger "E" zone is considered a known target in the Project Area. It is overlain by the Barnett Shale equivalent with 2-8% TOC as seen in area core data. The key to identifying prospective Ellenburger "E" zone locations is mapping the interval from the Ellenburger to

## 4. Independent Technical Expert's Report (cont.)

RALPH E. DAVIS  
ASSOCIATES, INC.

the Cambrian using 3D seismic that defines the subcrops and the thick zones where the best porosity is found. Numerous vertical wells have been producing from the Ellenburger "E" zone in the Suggs Field averaging 108,000 barrels of oil per vertical well.

Winchester Energy Limited currently owns a 50%WI in the Thomas 119-1H well in Nolan County, Texas. Well logs run after the vertical pilot hole portion of the Thomas 119-1H well was drilled, indicate two zones of potential pay in the Cline Shale (Three Fingers and Lower Penn), one zone of log-interpreted conventional pay in the Odom Limestone and log-interpreted pay in the Ellenburger "E". Subsequent to the completion of the vertical pilot hole, the Thomas 119-1H well has been drilled horizontally into the Ellenburger "E" interval along the subcrops just below the Cline Shale. The Thomas 119-1H well has reached a total depth (TD) of 10,265 feet after drilling just over 2,500 feet in the target zone of the Ellenburger "E" interval. Oil and gas shows were encountered throughout the targeted interval and independent log interpretation provided to this firm indicates just over 700 feet of potential pay zones. Production liner with swellable packers to isolate potential production zones has been successfully run to TD. Further completion and production testing operations will commence once the packers have set which takes several weeks.

When a prospective Ellenburger "E" zone location has been identified a vertical pilot hole will be drilled through the Ellenburger. If the Ellenburger "E" zone is present and appears productive then a lateral will be attempted, if not then the Cline Shale will be tested at a shallower depth.

In addition the Canyon, Strawn and Atoka horizons may be productive in this area.

### **Conclusion**

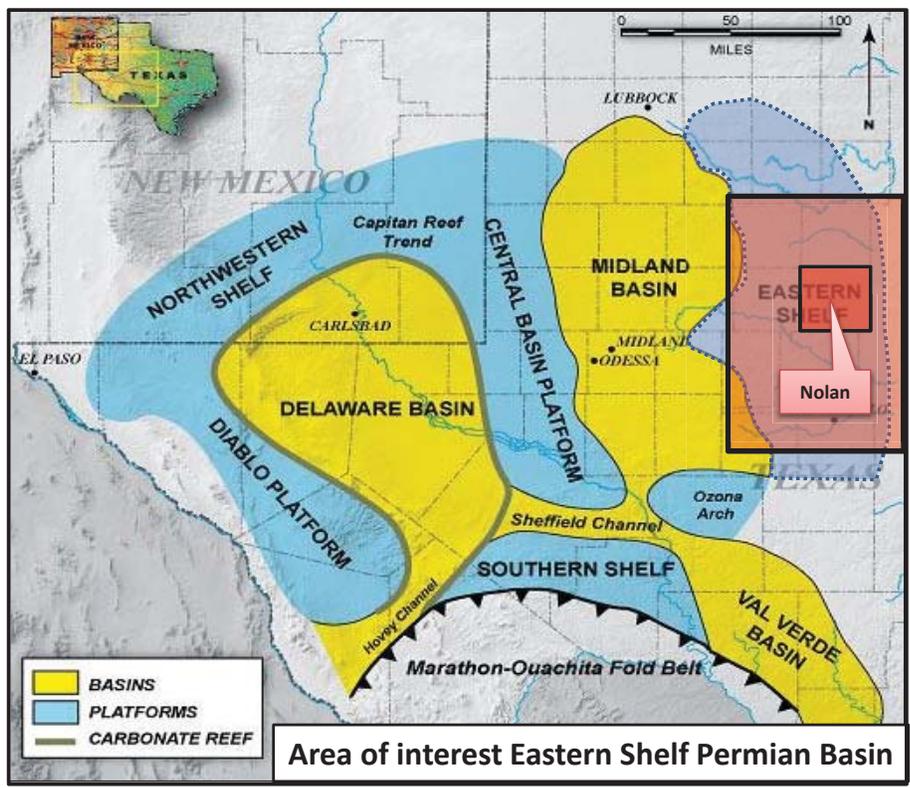
Based on the data reviewed we believe that the Cline Shale is a development candidate. All evidence leads us to believe that the successful trend being developed in the Basin should continue on the shelf. The Ellenburger "E" zone has current production from nearby vertical wells. Seismic is essential in finding valid locations. Good geology and seismic combined should make this a target play as well.



# Van Hoogen Oil Project

## Location

The Lower Pennsylvania age Cline Shale has seen a tremendous increase in leasing and drilling activity in the Midland Basin in Glasscock, Sterling, Howard, Mitchell, Coke and Nolan Counties, Texas. Devon Energy, Range Resources, Laredo Petroleum, Occidental Petroleum Corp, Energen, Firewheel Energy and others have leased huge tracts of land and are drilling numerous horizontal wells in the Cline Shale with good success. The Van Hoogen Oil Project (Project) as seen in Figure 1 below is on the Eastern Shelf of the Midland Basin. The leasing and successful drilling activity seen in the Midland Basin has now moved onto the Eastern Shelf area. The Project Area includes the 80%WI in 4,647 acres of oil and gas leases being acquired by Winchester Energy Ltd (Project Leases).



RALPH E. DAVIS ASSOCIATES, INC.  
Texas Registered Engineering Firm F-1529

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## 4. Independent Technical Expert's Report (cont.)

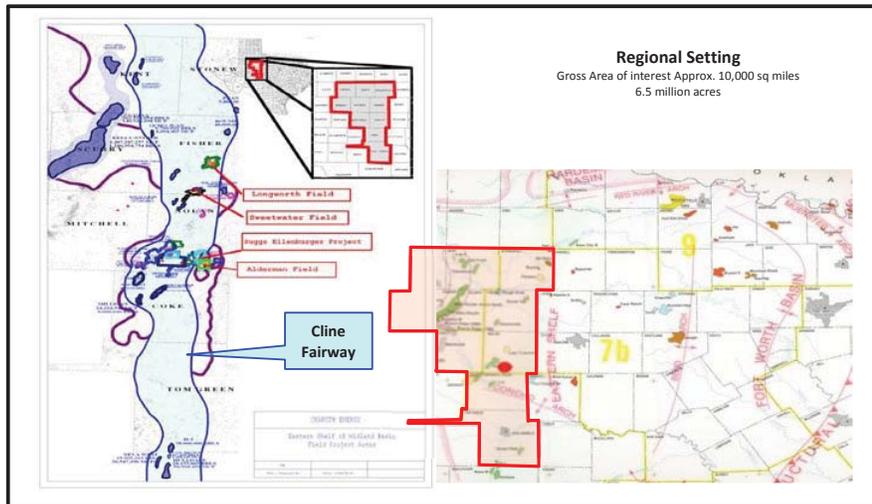
### Cline Shale

#### Land Position

The Cline Shale is correlative regionally and locally within the Basin as well as on the shelf. Over the years wells drilled within the boundaries of the Project Area have had significant gas shows throughout the Cline Shale interval. These shows are generally associated with drilling breaks and gas chromatograph analysis showing significant methane content as reported by mud loggers. On well logs these shows correlate with high Gamma ray, high resistivity intervals and SP development.

In Fisher, Nolan, Coke and Tom Green Counties the Cline Fairway trends north to south along the shelf as shown in Figure 2 below. There is production from other formations in the four (4) fields north of and contiguous to the Project's area of interest. Wells drilled into these fields had "shows" in the Cline Shale.

Figure 2: Cline Shale Fairway Trend





# 4. Independent Technical Expert's Report (cont.)

Figure 4 below is a more detailed stratigraphic column representing the geology of the Eastern Shelf of the Permian Basin. The Cline Shale is divided into several horizons that are not only shale but include limestones and sandstones as well.

The primary target zone for the Project Area is the Upper Cline Shale. There are several other horizons that could be potential targets as highlighted in Figure 4. These include the Lower Cline Shale and the Ordovician age Ellenburger particularly the Ellenburger "E" zone.

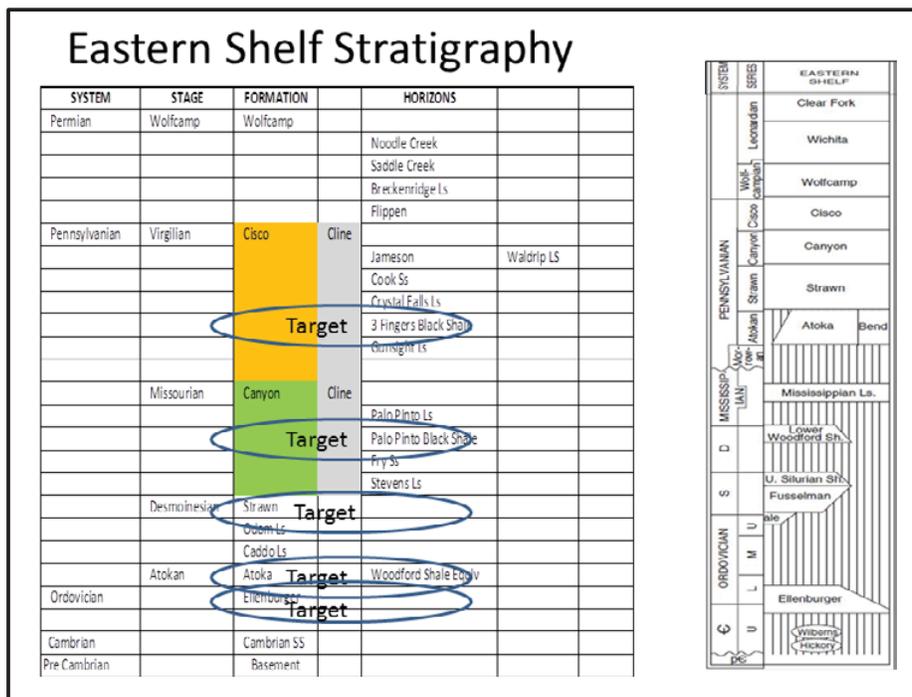


Figure 4: Eastern Shelf Stratigraphy



**Data**

Figure 5 illustrates what is believed to be the area of prospective Cline Shale both in the basin and on the shelf. Also included on the slide are some of the averages and ranges of geologic parameters for the prospective Cline Shale area.

Please take note the range of the Total Organic Content Percent (TOC%) from 1 to 8% and the OOIP per section (per 640 acres) of 23 million barrels of oil.

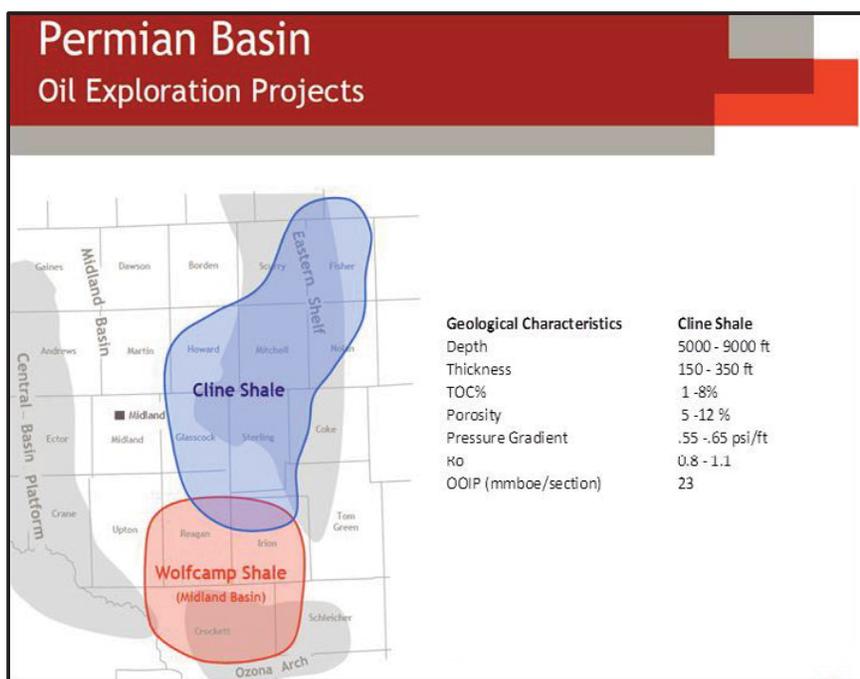


Figure 5: Regional Map of the Permian Basin.



## 4. Independent Technical Expert's Report (cont.)

The Cline Shale Type Log shown below in Figure 6 illustrates the basic log characteristic of the Cline Shale:

- High Gamma Ray (Green)
- High Resistivity intervals (Black)
- Porosity development (Red/Blue)

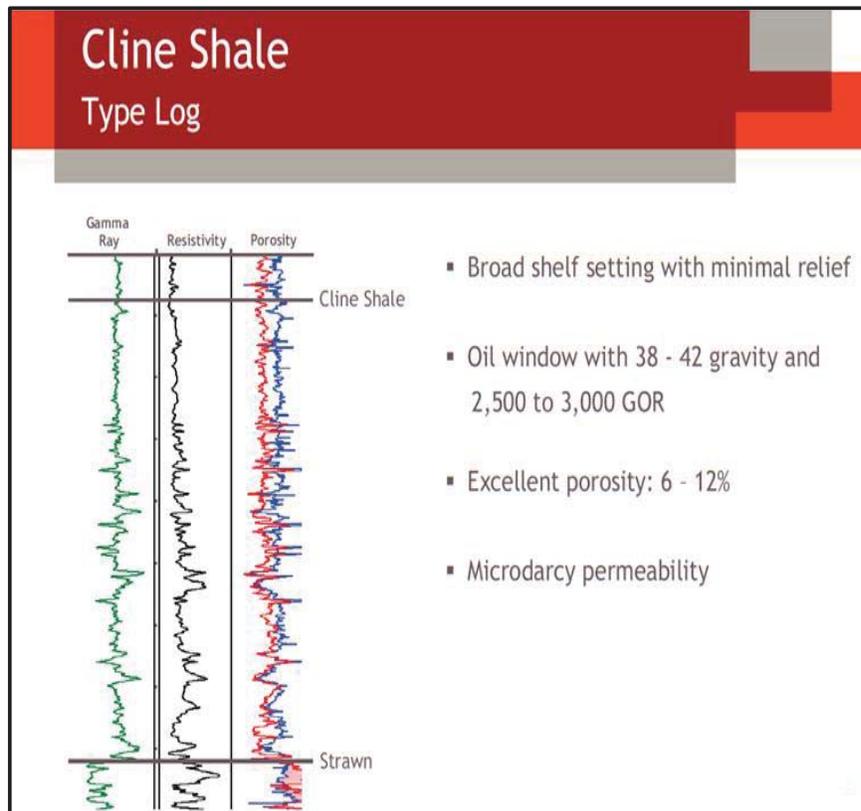
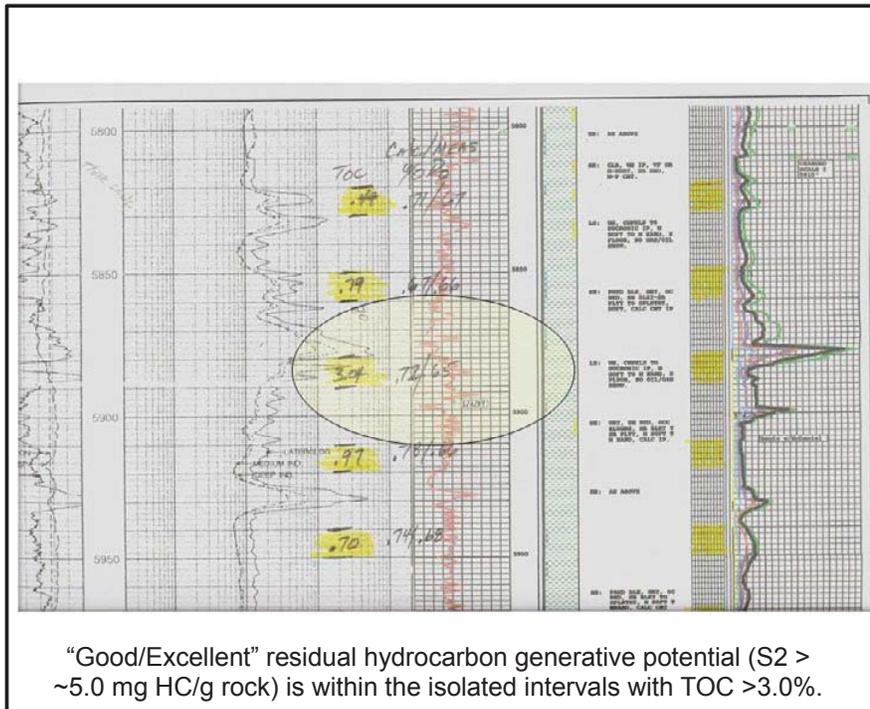


Figure 6: Cline Shale Type Log. Source: Devon Energy Presentation: Search and Discovery Article #70124 (2012), Posted October 8, 2012



The old Nolan County well shown below in Figure 7 has TOC% posted with the high resistivity intervals. The interval from 5870' to 5890' has over 3% TOC and measured vitrinite reflectance (%Ro) of 0.65%. In shales the oil window is considered to be between 0.5 to 1.3%Ro.



“Good/Excellent” residual hydrocarbon generative potential ( $S_2 > \sim 5.0$  mg HC/g rock) is within the isolated intervals with TOC  $> 3.0\%$ .

Figure 7: Interval Log (Source: Winchester Energy Limited).

## 4. Independent Technical Expert's Report (cont.)

Figure 8 below shows the locations of three (3) recently drilled wells in the immediate vicinity of the Project's area of interest.

The well logs for these wells are shown below in Figures 9, 10 and 11.

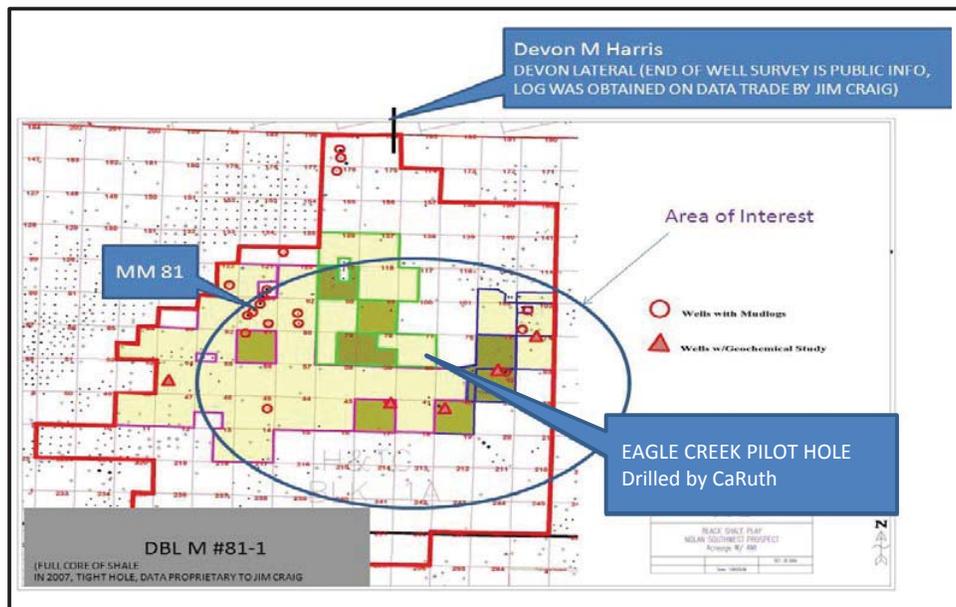


Figure 8: Location of 3 recently drilled wells near the Van Hoogen Oil Project (Source: Winchester Energy Limited).



The cross section shown below illustrates the ability to correlate the various formations from within the basin up onto the eastern shelf in Nolan County, Texas.

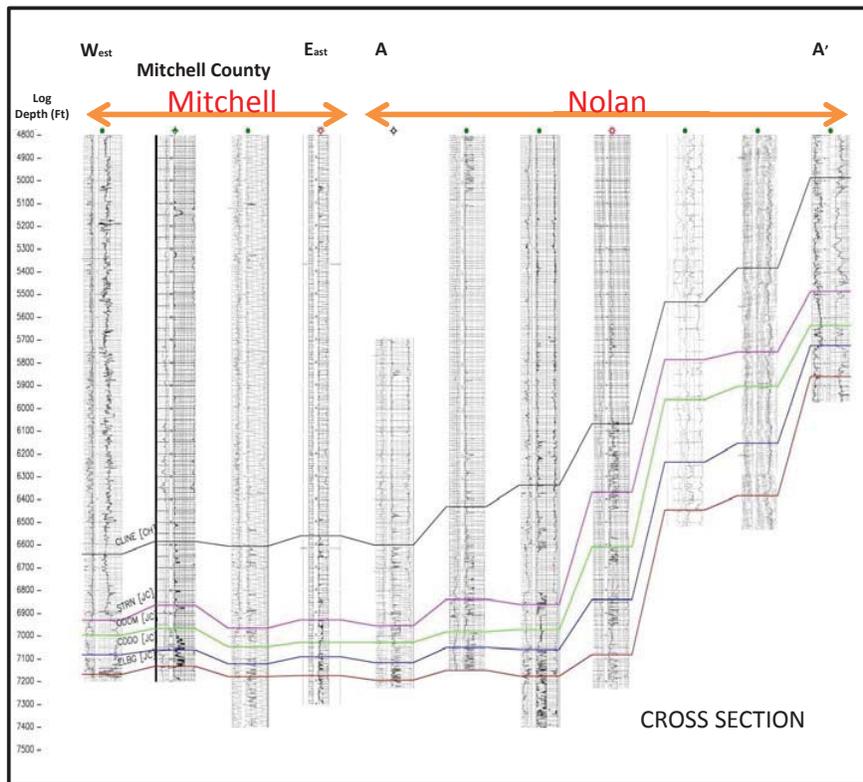


Figure 9: West – East Structural Cross Section showing formation correlations (Source: Winchester Energy Limited).

# 4. Independent Technical Expert's Report (cont.)

The map below in Figure 10 shows the location of the subject leases and geologic cross sections. In this report we used cross sections AA (East-West) and EE (North – South).

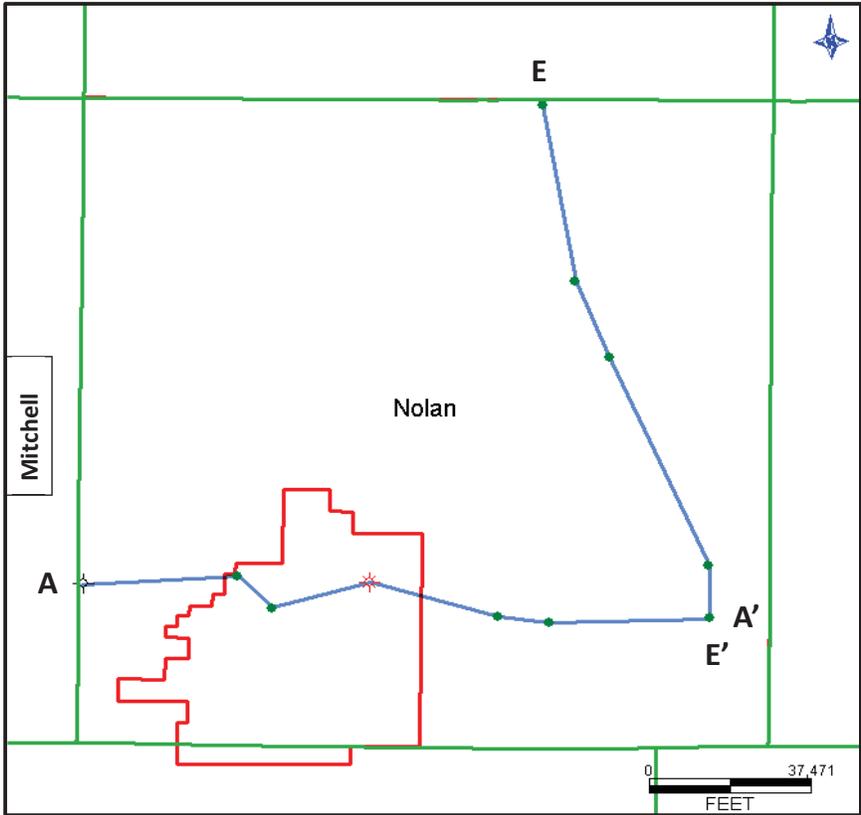


Figure 10: Map showing the location of a number of leases and geologic cross sections discussed in this report (Source: Winchester Energy Limited).

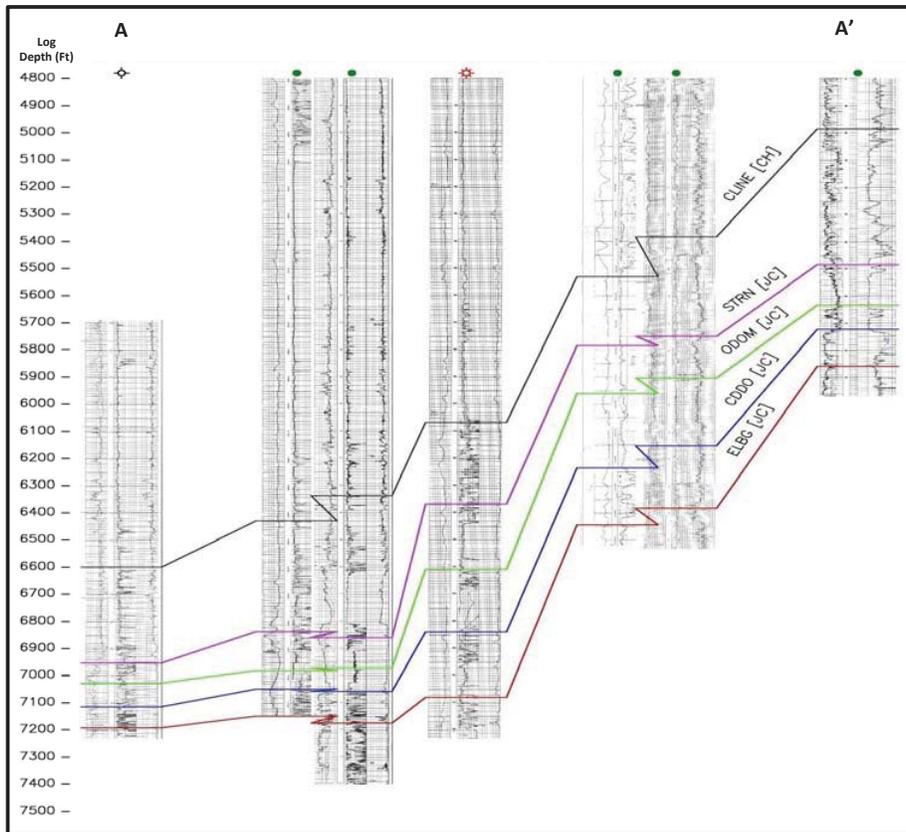


Figure 11: West – East structural cross section Nolan County, Texas (Source: Winchester Energy Limited).

As shown in Figures 11 and 12, cross section AA is a West to East cross section in Nolan County that covers a distance of 28 miles. This illustrates that these formations can be correlated over long distances and appears to be continuous.

## 4. Independent Technical Expert's Report (cont.)

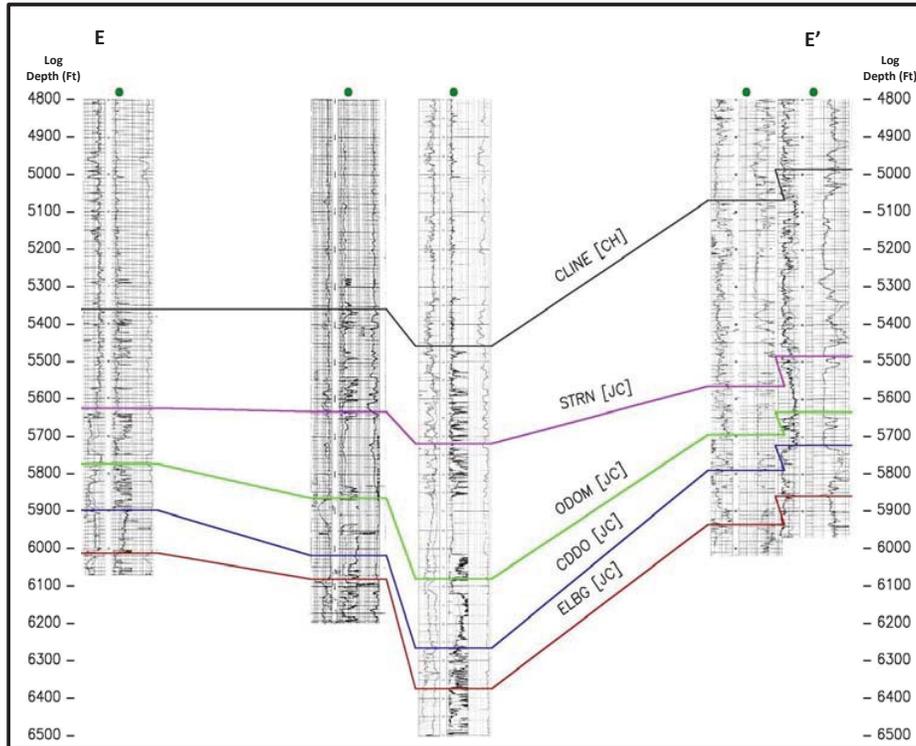


Figure 12: North - South Structural cross section in Nolan County, Texas (Source: Winchester Energy Limited).

As was shown in the previous cross section the formations are correlative and appear to be continuous north and south as well. Figure 12 above is the North-South cross section EE that covers a distance of approximately 25 miles.



The Eagle Creek Pilot Hole (refer to Figure 8) was drilled through the Cline Shale down to the Ellenburger. The log shown below in Figure 13 shows that the Lower Cline has a much better log response than the shallower Three Fingers Shale that Devon has targeted. The Lower Cline covers the Project's area of interest.

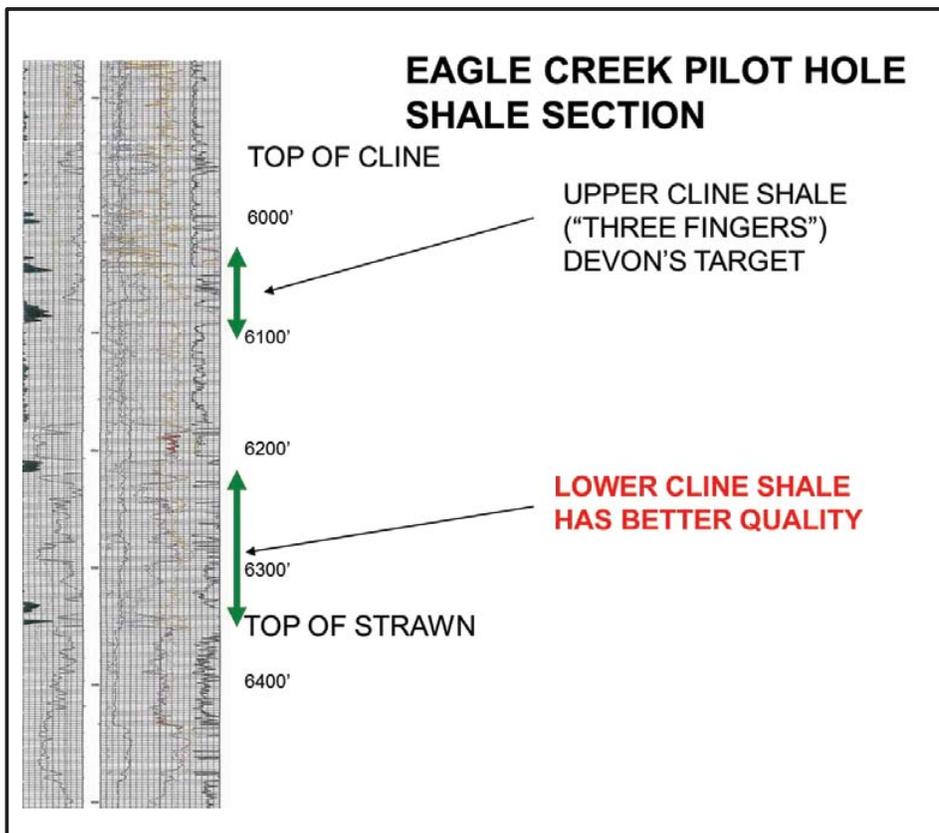


Figure 13: Eagle Creek Pilot Hole (Source: Winchester Energy Limited).

# 4. Independent Technical Expert's Report (cont.)

TOC analysis was performed on the Three Fingers and Lower Cline Shale (see Figure 14 below). The TOC content in the Lower Cline appears to be consistently better than the Three Fingers. These results make the Project Area attractive for development. The Devon Harris M 1H well (refer to Figure 8) is missing the Lower Cline and was drilled north of Winchester Energy Limited's Thomas 119-1H well.

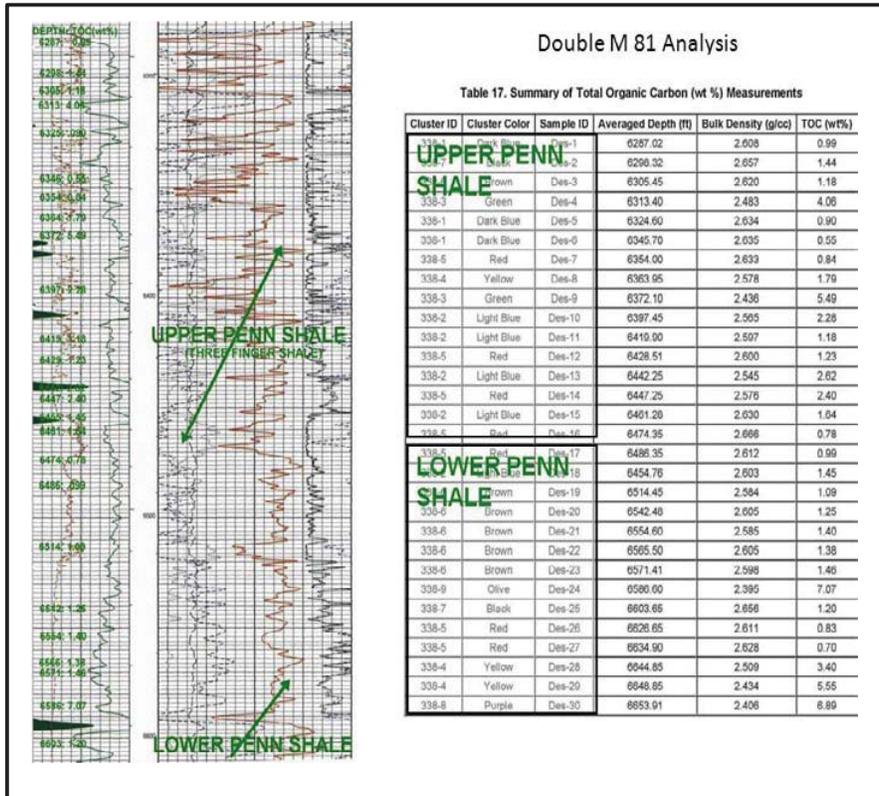


Figure 14: Double M 81 well analysis (Source: Winchester Energy Limited).



Petrophysical analysis of the whole core taken in the Double M 81 well (refer to Figure 8) is further evidence that the Lower Cline Shale is the preferred target. As noted below in Figure 15 it appears that there are two distinct Shale Intervals.

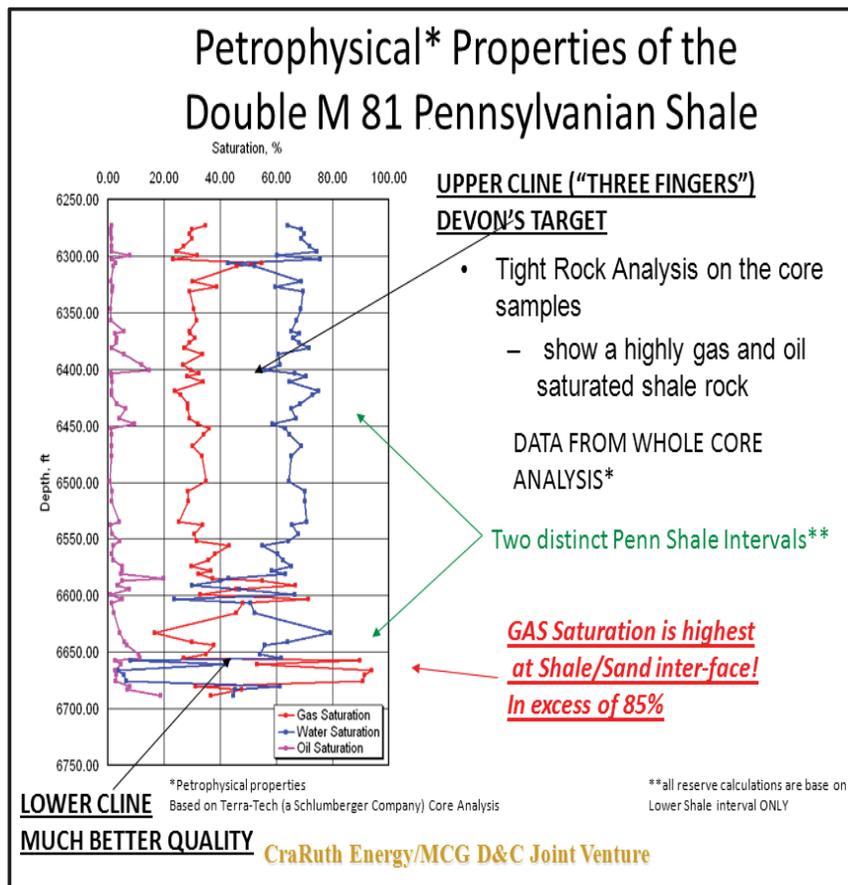


Figure 15: Petrophysical Properties of the Double M 81 well (Source: Winchester Energy Limited).

## 4. Independent Technical Expert's Report (cont.)

The list below in Figure 16 shows that there is a lot of interest in the Project Area. The list includes known shale developers such as Chesapeake (now Envervest), Devon and Range Resources.

### Horizontal Cline Locations Since January 1, 2012 By Date

Operator	Lease	Well	Date
Chesapeake	SPADE RANCH	S450H	1/3/2012
Chesapeake	SPADE RANCH	S150H	1/18/2012
Kirkpatrick	HAWKS 12	1H	4/4/2012
Abraxas	SPIRES RANCH	891H	5/3/2012
Firewheel	HORWOOD	2151	5/3/2012
Firewheel	SOUTH COPELAND	2221	5/4/2012
Firewheel	H&H RANCH	41	5/16/2012
Devon	WALLACE M	1H	5/25/2012
P.L.O.	COOPER	1H	6/7/2012
P.L.O.	COOPER	2H	6/7/2012
Devon	HARRIS M	1H	6/13/2012
Abraxas	SPIRES RANCH	1262H	6/18/2012
Devon	DAVENPORT, ROBERT M	1H	7/12/2012
Devon	MAYSE C	1H	7/20/2012
Range	WILLINGHAM 69	1H	8/13/2012
Enduring	STEWART 02	1H	8/13/2012
Enduring	GLASS 14	1H	8/13/2012
Firewheel	LINTON WEBB	711H	8/16/2012
L.C.S.	JONES	1H	8/17/2012
Devon	ANGELA MEADOWS C	1H	8/22/2012
Devon	PRICE C	1H	8/23/2012
Enduring	REED 14	1H	8/23/2012
Devon	MCCALL DEVENPORT C	1H	8/29/2012
Devon	LOCASCIO M	1H	9/6/2012
Devon	SCHARLACH M	1H	9/12/2012

Figure 16: Horizontal Cline Locations since January 1 2012 (Source: Winchester Energy Limited).



## Ellenburger “E”

In addition to the Cline Shale, the Ellenburger “E” zone is considered a viable target in the Project Area. It is overlain by the Barnett Shale equivalent with 2-8% TOC as seen in area core data.

The key to identifying prospective Ellenburger “E” zone locations is mapping the interval from the Ellenburger to the Cambrian using 3D seismic that defines the subcrops and the thick zones where the best porosity is found. Numerous vertical wells have been producing from the Ellenburger “E” zone since 1998 in the Big Silver Ellenburger and Suggs Fields averaging 108,000 barrels of oil per vertical well.

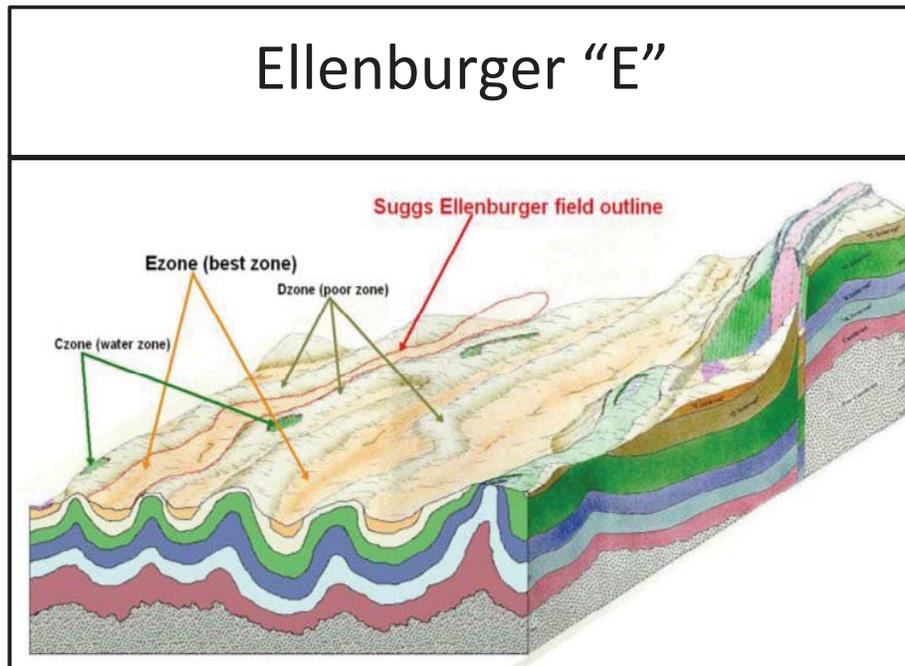


Figure 17: Ellenburger “E” (Source: Winchester Energy Limited).

## 4. Independent Technical Expert's Report (cont.)

### Geological Structure

When a prospective Ellenburger "E" zone location has been identified a vertical pilot hole will be drilled through the Ellenburger. If the Ellenburger "E" zone is present and appears productive then a lateral will be attempted, if not then the Cline Shale will be tested at a shallower depth.

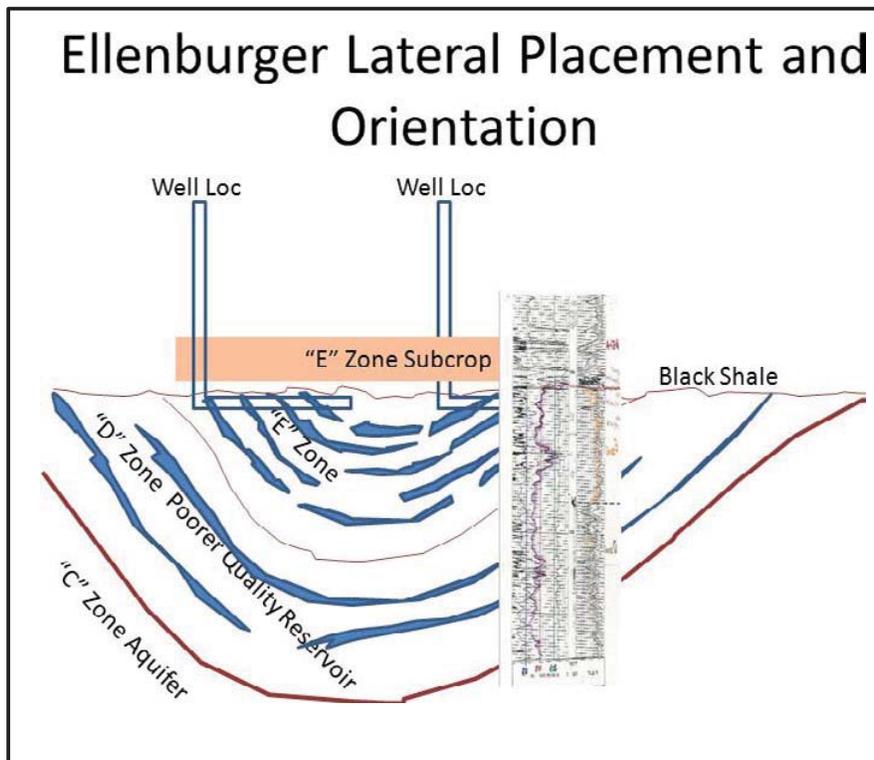


Figure 18: Ellenburger Lateral Placement and Orientation (Source: Winchester Energy Limited).



The Black Shale source rocks in Nolan County are shallower than those found in Mitchell County. The shales overlie the Ellenburger and are the probable source rock for the Ellenburger "E" zone.

Black Shale in EA Field Eastern Nolan Co		
E. A. FIELD NOLAN COUNTY, TEXAS CORE DESCRIPTIONS		
Formation	Interval	Description
Strawn Reef	5239-5254'	5-3/4' black tight lime w/well cemented fractures, slightly fossiliferous; 1/2' black shale; 8-3/4' finely crystalline lime w/fine well-cemented fractures w/sulfurous odor.
Black Shale	6000-6034'	Black shale w/fossiliferous lime streaks.
	6034-6084'	Black shale w/lime streaks.
Ellenburger Dolomite	6110-6121'	4' dolomite w/show oil; 4' fractured brown dolomite w/porosity and stain.
	6121-6131'	Tan, crystalline fractured dolomite w/show of oil.
	6131-6138'	Brown, crystalline-to-granular dolomite w/show of oil.
	6242-6254'	Gray, dense dolomite w/streaks of shale and chert.
Cambrian	6602-6612'	5-1/2' fine-grained, gray dolomite; 4' coarse gray sand w/sulfurous odor.

Figure 19: Black Shale in EA Field, Eastern Nolan County, Texas (Source: Winchester Energy Limited).

# 4. Independent Technical Expert's Report (cont.)

**Data**

Seismic is an essential tool needed to locate the developed Ellenburger "E" zone. This arbitrary line shows the thick area of deposition where the best porosity is found.

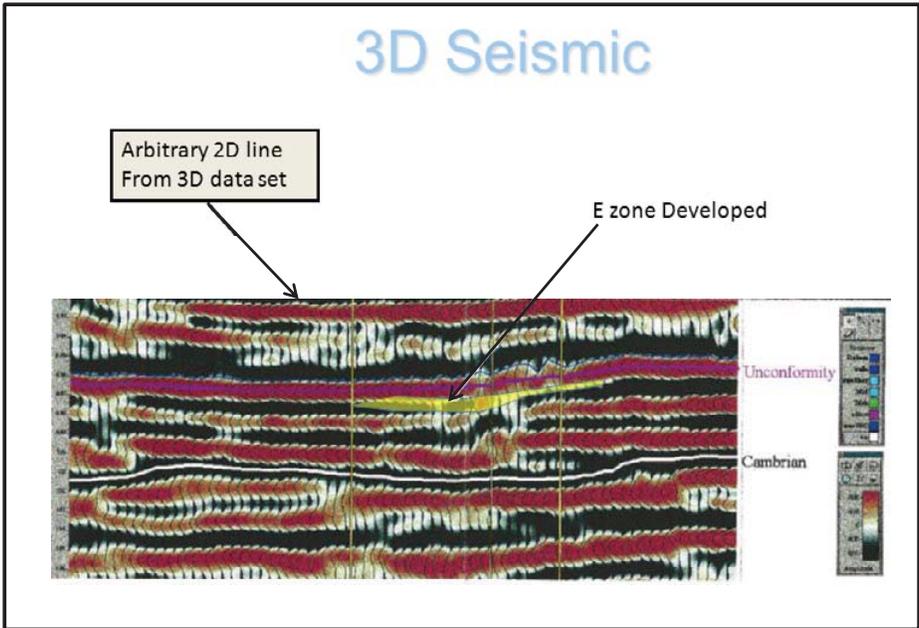


Figure 20: Arbitrary 2D line from proprietary 3D (Source: Winchester Energy Limited).



### Drilling Program and Budget

The table below outlines an example drilling Program and Budget for the Project which is suitable and appropriate in order to test the targets in the Project Area. It assumes that the necessary financing is in place.

Technical Activity	A\$10,000,000 Raised (A\$)	A\$15,000,000 Raised (A\$)	A\$20,000,000 Raised (A\$)
Drilling Program in first 12 months after Listing on ASX	\$1,600,000	\$4,400,000	\$5,680,000
Drilling Program 12 to 24 months after Listing on ASX	\$1,600,000	\$4,400,000	\$5,680,000
<b>Total Drilling Expenditure</b>	<b>\$3,200,000<sup>A</sup></b>	<b>\$8,800,000<sup>B</sup></b>	<b>\$11,360,000<sup>C</sup></b>

**Notes:**

- A In the event the minimum subscription of A\$10,000,000 is raised, then Winchester Energy Ltd will only drill one Ellenburger “E” well in the first 24 months after listing on ASX at an approximate total well cost of A\$3,200,000. This cost will be borne solely by Winchester Energy Ltd since the two entities holding the remaining 20% working interest in the Van Hoogen Oil Project Leases, being CraRuth and MCG Drilling Investments LLC do not have to contribute 20% of this drilling cost since they are free carried on the first well.
- B In the event A\$15,000,000 is raised, then Winchester Energy Ltd will drill in the first 24 months after listing on ASX, one Ellenburger “E” well (with an approximate total well cost of A\$3,200,000) followed by a second fracted horizontal well into the Cline Shale (with an approximate total well cost of A\$7,000,000) with the total well expenditure amounting to A\$10,200,000 for which Winchester Energy Ltd’s share would be A\$8,800,000. It also assumes that CraRuth and MCG Drilling contribute to 20% of the cost of the second well but are free carried on the first well.
- C In the event A\$20,000,000 is raised, Winchester Energy Ltd will drill in the first 24 months after listing on ASX, one Ellenburger “E” well (with an approximate total well cost of A\$3,200,000) followed by a second fracted horizontal well into the Cline Shale (with an approximate total well cost of A\$7,000,000) followed by a third Ellenburger “E” well (with an approximate total well cost of A\$3,200,000) with the total well expenditure amounting to A\$13,400,000 for which Winchester Energy Ltd’s share would be A\$11,360,000. It also assumes that CraRuth and MCG Drilling contribute to 20% of the cost of the second and third wells but are free carried on the first well.



## 4. Independent Technical Expert's Report (cont.)

### Appendix

#### Petroleum Resources Management System

#### **Reserves Category Definitions and Guidelines**

**Proved Reserves** are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8).

Reserves in undeveloped locations may be classified as Proved provided that:

1. The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive.
2. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations.

For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

**Probable Reserves** are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria.

Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.



**Possible Reserves** are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project.

Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

**Probable and Possible Reserves**—(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects.

In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area.

Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources.

In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

**Prospective Resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

*Transcribed from 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System document Table 3*



## 4. Independent Technical Expert's Report (cont.)



### Professional Qualifications

Ralph E. Davis Associates, Inc. is a Texas Corporation with offices located at 1717 St. James Place, Suite 460, Houston, Texas 77056. The firm has been providing petroleum engineering and geological consulting services throughout the world for some 88 years. The firm's professional engineers, geologists, geophysicists and economists are engaged in the independent appraisal of oil and gas properties, evaluation of hydrocarbon and other mineral prospects, basin evaluations, comprehensive field studies, equity analyses and studies of supply and economics related to the energy industry. Except for the provision of professional services on a fee basis, Ralph E. Davis Associates, Inc. has no commercial arrangement with any other person or company involved in the interests which are the subject of this report.

This evaluation has been supervised by Allen C. Barron. Mr. Barron is President of Ralph E. Davis Associates, Inc. and a licensed Professional Engineer in the State of Texas, USA. He has 43 years of oil and gas industry experience and 33 years of applicable evaluation experience.

SIGNED: July 21, 2014

Submitted,  
**RALPH E. DAVIS ASSOCIATES, INC.**

  
Allen C. Barron P.E.  
President



1717 St. James Place, Suite 460 Houston, Texas 77056 Office 713-622-8955 Fax 713-626-3664 www.ralphedavis.com  
Worldwide Energy Consultants Since 1924



## Certificate of Qualification

I, Allen L. Kelley, of 1717 St. James Place, Suite 460, Houston, Texas 77056 hereby certify:

1. I am an employee of Ralph E. Davis Associates, Inc., that has prepared an estimate of the oil and gas reserves on specific leaseholds in which Winchester Energy Limited has certain interests. The effective date of this evaluation is July 21, 2014.
2. I am a Certified Professional Geologist by the American Association of Petroleum Geologists, CPG Certificate number 6092.
3. I attended Texas Tech University, at Lubbock, Texas and graduated with a Bachelor of Science Degree in Geology in 1980. I have thirty two years of experience in the Petroleum Industry of which over thirty years of experience are in the conduct of evaluation and engineering studies relating to both domestic U.S. oil and gas fields and international energy assets.
4. I have prepared reserve evaluation studies and reserve audits for public and private companies for the purpose of reserve certification filings in foreign countries, domestic regulatory filings, financial disclosures and corporate strategic planning. I personally supervised and participated in the evaluation of the Winchester Energy Limited properties that are the subject of this report.
5. I do not have, nor do I expect to receive, any direct or indirect interest in the securities of Winchester Energy Limited or any affiliated organizations.
6. A personal field inspection of the properties was not made, however, such an inspection was not considered necessary in view of the information available from information, records and the files of the operator of the properties.

SIGNED: July 21, 2014.

Allen L. Kelley, CPG  
Vice President  
Ralph E. Davis Associates, Inc.



## 4. Independent Technical Expert's Report (cont.)



### Consent of Author

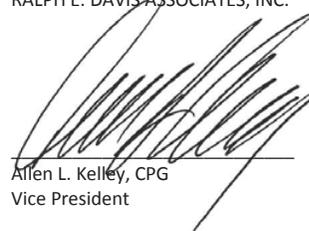
July 21, 2014

To: The Board of Directors  
Winchester Energy Limited  
Level 1  
100 Havelock Street  
West Perth WA 6005  
Australia

The undersigned consultancy firm, Ralph E. Davis Associates, Inc., acknowledges that it has evaluated the interests of Winchester Energy Limited and hereby grants its consent to the use of its name or the use of the report in its entirety in all filings required by Winchester Energy Limited including but not limited to a prospectus to raise A\$15,000,000.

The effective date of this report is July 21, 2014.

RALPH E. DAVIS ASSOCIATES, INC.

  
Allen L. Kelley, CPG  
Vice President





## Glossary

%Ro	Vitrinite reflectance
1P, 2P, 3P	Proved, Proved plus Probable, Proved plus Probable plus Possible Reserves
3D Seismic	Seismic data which is acquired in a multi-azimuthal pattern and processed such that the signal-to-noise ratio is enhanced by three-dimensional stacking of the reflections caused by sub-surface interfaces between rocks with different acoustics properties
3-way dip closure	A trap which is formed by disclosure on three sides and either fault seal or stratigraphic facies change on the other
4-way dip closure	A trap which is formed by disclosure on four sides and either fault seal or stratigraphic facies change on the other
AAPG	American Association of Petroleum Geologists
Acres	Unit of area, 640 acres = 1 mile <sup>2</sup> = 5,280 feet <sup>2</sup>
API Units	Units of measure for Gamma Ray wire line log
API <sup>o</sup> Gravity	American Petroleum Institute units of specific gravity of liquid petroleum; specific gravity at 60 °F = 141.5 / (API <sup>o</sup> Gravity + 131.5)
ASFL	Spherically Focused Log, a frequently used log with a shallow depth of investigation
AT10, AT60, AT90	Shallow, medium and deep resistivity logs
Atm	Unit of pressure; atmosphere
Bbl	Barrel
Bopd	Barrels of oil per day
Bcpd	Barrels of condensate per day
Best Estimate	An estimate representing the best technical assessment of projected volumes. Often associated with a central, P50 or mean value of the projected volume.
Bo	Barrels of oil
Bcfg	Billion standard cubic feet at standard conditions
BTU	British Thermal Unit
Bwpd	Barrels of water per day
cfg/bo	Cubic feet of gas per barrel of oil at standard conditions, a form of GOR
Controlled or Attributable	Project acreage currently leased by the Company, or reserves and resources estimated to be held by such acreage
CPR	Competent Person's Report
D	Day
Disc.	Discounted
DPOR	Density porosity
EMV	Expected Monetary Value: [(Geologic Success Rate) * (PV10% of Prospective Resources)] - [(1 - Geologic Success Rate) * Dry Hole Exploratory well cost] Non Risked EMV, Definition: Equals Present Value Net Cash Flow Discounted at 10%
hydraulic fracture	The breaking of perforated section of rock with gas, water, polymer and proppant with the purpose to improve the conductivity of the wellbore to natural fractures and/or greater volume of lower permeable reservoir rock. Sometimes called Fracture Stimulation. (Slang: fracking, hydrofracking)
GCS	Geological Chance of Success
GOR	Gas-oil ratio
GR	Gamma ray
Gross Acreage	Total Project Acreage

## 4. Independent Technical Expert's Report (cont.)

IDL	Induction Log Deep
Invest.	Investment
Km	Kilometer
Ma	Million years
MBbl	Thousands barrels of oil
Mbc	Thousands barrels of condensate
Mbo	Thousands barrels of oil
Mboe	Thousands of barrels of oil equivalent with oil converted at 6 MMcfg = 1 Mboe
Mbsw	Thousands of barrels of salt water
Mcfg	Thousand cubic feet of gas at standard conditions
mD	Millidarcies in units of square feet or square meters
MD	Measured depth
MMBbl	Millions barrels of oil, Millions of stock tank barrels of oil
MMbo	Millions barrels of oil, Millions of stock tank barrels of oil
MMboe	Millions of barrels of oil equivalent with oil converted at 6 MMcfg = 1 Mboe
MMBTU	Millions of British Thermal Units
MMbsw	Millions of barrels of salt water
MMcfg	Millions cubic feet of gas at standard conditions
MMcfgpd	Million cubic feet per day at standard conditions
MMcfge	Millions of cubic feet of gas and gas equivalent volumes of oil and or condensate with oil converted at 6 MMcfge = 1 Mbo or Mbc at standard conditions
Ms	Milliseconds
MV	Millivolt, unit for the SP wire line log
NAV	The PV10 of the attributable or controlled reserves and/or resources.
NPOR	Neutron Porosity
° F or ° C	Degrees Fahrenheit or Centigrade; units of temperature
OHMM	Ohmmeter, unit of resistivity
P.E.	Licensed Professional Engineer in the State of Texas
P1,P2,P3	Low Estimate, Best Estimate, High Estimate Prospective Resources
P10	10% probability that value will be equal to or greater than stated value
P50	50% probability that value will be equal to or greater than stated value
P90	90% probability that value will be equal to greater than stated value
Perf	Perforation
PRMS	Petroleum Resources Management System SPE/SPEE/AAPG/WPC 2008
Prospective Resources	Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub- classified based on project maturity.



Proved	Proved Reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
Proved plus Probable	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
psi, psia, psig	Pounds per square inch, Pounds per square inch measured at atmospheric conditions, Pounds per square inch measured at gauge conditions
PW 10.00%	Present Worth at a discount rate of 10 percent
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions as defined as per SPE/SPEE/WPC/ AAPG/SEC.
resources	Those volumes of hydrocarbons either yet to be found (prospective) or if found, the development of which depends upon commerciality being resolved (contingent)
risk factor	Chance or probability of discovering hydrocarbons in sufficient quantity for them to be tested to the surface
ROI	Rate on Investment
ROR	Rate of Return
SP	Spontaneous Potential
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
sq. mi.	unit of area, square miles (miles <sup>2</sup> )
standard conditions	The pressure and temperature which hydrocarbons are sold; typical conditions are 14.7 psia and 60°F or 1 atm and 20°C
Tcfg	Trillion cubic feet of gas at standard conditions
Tcfge	Trillion cubic feet of gas and gas equivalent volumes of oil and or condensate with oil converted at 6 MMcfge = 1 Mbo at standard conditions
TD	Total depth in units of feet or meters
TDT	Thermal decay time for a pulse neutron log
TVD	True vertical depth
U.S.	The United States of America, its territories and possessions, any state of the United States or the District of Columbia and all areas subject to its jurisdiction
US\$ or \$	A currency unit of the United States of America (Dollars)
USM\$	Thousands of US dollars
USMM\$	Millions of US dollars
Valuation Date	The "as of date" which the CPR report valuation is prepared

## 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA



July 28, 2014

Winchester Energy Limited  
Level 1  
100 Havelock Street  
West Perth WA  
Australia, 6005

Ladies and Gentlemen:

We have acted as special Texas counsel to Winchester Energy Limited (“**Winchester Energy**”) in connection with the preparation, execution and delivery, and the consummation of the transactions contemplated by that certain Purchase Agreement (the “**Agreement**”) by and among Winchester Energy, CEP Nolan Partners Inc. (the “**Company**”) and the Vendors (as defined therein), dated effective June 24, 2014. Capitalized terms not otherwise defined in this letter report (the “**Report**”) shall have the meaning as defined in the Agreement or in such other document, instrument or agreement specifically noted herein.

### I. REVIEW

A. In so acting, we have examined originals or copies (certified or otherwise identified to our satisfaction) of:

- (i) the Agreement in execution form and such corporate records, agreements, documents and other instruments, and such certificates or comparable documents of public officials and of officers of the Company, and have made such inquiries of such officers, as we have deemed relevant and necessary as a basis for the opinions hereinafter set forth; and
- (ii) with respect to our opinion(s) regarding the Defensible Title of Company in and to the Project Leases, we have examined the documents and other instruments provided by the Company, including copies of certain leases, assignments, and other instruments reflecting the book and page location within, and bearing a file stamp of the custodian of, the real property records in Nolan County, Texas.

B. In such examination, we have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies, and the authenticity of the originals of such copies.

1300 Post Oak Boulevard, Suite 2400 | Houston, Texas 77056 | P: 713.335.8600 | F: 713.335.8601  
4833-3622-9148.v2

July 28, 2014  
Page 2

C. As to all questions of fact material to these opinions that have not been independently established, we have relied upon certificates or comparable documents of officers and representatives of the Company, and upon the representations and warranties of the Company contained in the Agreement.

D. As used herein, “to our knowledge” and “of which we are aware” mean the conscious awareness of facts or other information by any lawyer in our firm performing a material amount of work with respect to the transactions contemplated by the Agreement and the preparation of this Report.

E. We have assumed that all parties to the Agreement, the Contribution Agreements (as defined herein), and the Materials Examined (as defined herein) have performed their obligations thereunder in all respects.

F. We have assumed the validity and binding effect of the Agreement under the law of Western Australia.

## **II. BACKGROUND ON THE MINERAL TITLE REGIME IN TEXAS, USA**

In Texas, USA, the owner of land owns the oil, gas and other minerals beneath his/her tract unless a severance has occurred thereby resulting in two distinct estates: the surface estate and the mineral estate. A severance of the minerals results from a conveyance or reservation of all, or a portion, of the “oil, gas and other minerals” in and to a specific tract.

Texas adopted the ownership in place doctrine which confirms that the oil, gas and other minerals beneath a tract of land are a part of the realty until produced and become personal property when brought to the surface. Because the mineral estate is considered real property, it may be acquired, divested, encumbered, devised and inherited, thereby resulting in the possibility that an unlimited number of persons (“mineral owners”) may own undivided interests in a tract’s minerals. If an owner of a mineral estate, whether intact with the surface or severed, chooses to pursue development of and production from the minerals, such owner might exercise its rights and may generate revenue through one or more of these methods: (1) the right to develop the mineral estate by contracting directly with a drilling and operating company and directly selling the minerals; (2) the right to lease the mineral estate to a third party, specifying terms of the lease and defining the minerals that may be produced; (3) the right to receive a payment for selling the mineral estate or receive bonus payments, usually calculated per acre, from the lessee for leasing the mineral estate; (4) the right to receive delay rentals when the mineral estate is leased but not being produced; and (5) the right to structure compensation through royalty payments, as a percentage of minerals produced, from the purchaser of the mineral estate or from the lessee for minerals produced. A mineral owner’s right to develop includes the right to proceed with exploration, drilling, production and marketing of the minerals. Given the inherent risk, cost of development and required technology to produce oil and gas, most mineral owners do not independently develop their minerals, and as a result, rely on their ability to transfer the mineral estate to a third party.

The conveyance of this right to develop is normally accomplished by an oil and gas lease by which a mineral owner (the “lessor”) conveys a present interest in the mineral estate to a third

## 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA (cont.)

July 28, 2014  
Page 3

party (the "lessee"). The oil and gas lease serves as both a conveyance and a contract which establishes the parties' rights and obligations. The lessee may keep and sell its proportionate share of the oil and gas produced from the lease until the lease expires. The first lessee may assign (sublease) the lease.

The execution of an oil and gas lease that reserves a royalty to the lessor creates two additional estates: the leasehold estate and the royalty interest. The lessor retains the royalty interest, being the owner's expense-free share of production, while the lessee acquires the working interest, or the cost bearing interest, which provides the lessee the right to develop the oil and gas at its sole risk and expense. The leasehold estate created by the oil and gas lease may be conveyed, assigned and encumbered similar to any other real estate, and it is common for the original lessee to assign an undivided working interest to numerous parties, which share the burden of costs of developing the mineral estate.

The Company's assets, insofar as referenced in this Report, consist of oil, gas and/or mineral leases granting (in general) the lessee named therein certain rights to, and the rights, duties and obligations with respect to, development of the underlying oil, gas and/or other minerals through exploration, drilling, production and marketing of the oil, gas and/or other minerals. The Company acquired by sublease certain undivided interests in and to the oil, gas and/or mineral leases from the lessee (or successor-in-interest to the lessee) therein named via conveyance recorded in the real property records of the county in which the Project Leases and Lands are located. As a working interest owner in these Project Leases, the Company is obligated to pay its proportionate share of the costs and expenses associated with development of, and has the right to receive its working interest proportionate share of revenue from the sale of, oil, gas and/or other minerals.

This Report includes the results of our review of certain documents by which Company acquired its undivided interest in and to the oil, gas and/or other minerals as stated in the recorded leases; however, we have not examined or analyzed, and this Report makes no reference to, the ownership or rights to the party(ies), the lessor(s), granting the rights to Company pursuant to the oil, gas and/or mineral leases.

Winchester Energy's assets, insofar as referenced in this Report, consist of (a) the stock of the Company being acquired, in exchange for shares, options, Class A, Class B and Class C Convertible Milestone Notes in Winchester Energy and a contingent right to a cash payment of US\$3,100,000, and thus Winchester Energy's indirect ownership in the assets of the Company, and (b) certain contractual agreements creating equitable or beneficial rights in Winchester Energy, directly as referenced or through the Company, to acquire undivided interests in and to identified oil, gas and/or mineral leases from the respective lessee (or successor-in-interest to the lessee) therein named, upon the occurrence and satisfaction of the conditions, obligations and duties set forth therein.

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### III. REPORT AND OPINIONS

Based on the foregoing, and subject to the qualifications stated herein, we are of the opinion that:

A. Company:

1. The Company is a corporation validly existing and in good standing under the laws of the State of Texas, and has all requisite corporate power and authority to carry on its business as now being conducted. Based solely on representations made to us by certain Company officers, the Company is current and in compliance with all regulatory and tax filings and returns required under the laws of the state of Texas and the United States.

2. The authorized capital stock of the Company consists of 50,000,000 shares of common stock, par value \$0.01 per share.

B. Contribution Agreement:

1. The Company is a party to that certain Contribution Agreement between the Company and the Subscribers (as defined therein) dated effective June 4, 2014; and that certain Contribution Agreement between the Company and ESPB Investments, Inc. dated effective June 24, 2014 (collectively, the “**Contribution Agreements**”) which require 50,000,000 shares of common stock of the Company to be issued (as listed on Exhibit A) upon satisfaction of the conditions that:

- (i) Winchester Energy successfully obtaining applications from investors for a minimum capital raising of A\$10,000,000 by August 31, 2014 by way of one or more public or private offerings of Winchester Energy securities, and otherwise being in a position to proceed with the purchase of all the issued and outstanding Common Stock (as defined in the Contribution Agreements) of the Company by August 31<sup>st</sup>, 2014 for the agreed arm’s length, fair market valuation purchase price of US\$6,050,000, as set forth in Section 1.1 of the Contribution Agreements; and
- (ii) each Subscriber and ESPB Investments, Inc. assigns, transfers and delivers to the Company all of their right, title and interest in and to the Project Leases, as set forth in Section 1.3 of the Contribution Agreements.

2. Subject to and conditional upon this law firm being informed by the Company and Winchester Energy that the conditions summarized in Section III.B. above, and more particularly set forth in the Contribution Agreements, have been satisfied, this law firm will confirm:

- (i) that the Project Leases have been transferred;
- (ii) that the common stock of the Company will be issued according to Exhibit A within the time required in the Contribution Agreement;

## 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA (cont.)

July 28, 2014

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(iii) transfer of all of outstanding common stock of the Company to Winchester Energy pursuant to the Agreement;

(iv) all of such Company outstanding shares will be duly authorized, validly issued, fully paid and nonassessable, with no personal liability attaching to the ownership thereof, and will not be issued in violation of any preemptive rights pursuant to law or in the Company's Certificate of Formation.

3. To our knowledge and based upon representations of certain Company officers, except for the Contribution Agreements, there are no outstanding securities of the Company convertible into or evidencing the right to purchase or subscribe for any shares of capital stock of the Company, there are no outstanding or authorized options, warrants, calls, subscriptions, rights, commitments or any other instruments or agreements of any character obligating the Company to issue any shares of its capital stock or any securities convertible into or evidencing the right to purchase or subscribe for any shares of such stock, and there are no agreements or understandings with respect to the voting, sale or transfer of any shares of capital stock of the Company to which the Company is a party.

### C. Assets:

1. Based solely upon our examination of the instruments, agreements and documents more particularly described and set forth on Exhibit C, attached hereto and incorporated herein by reference (hereinafter collectively referred to as the "**Materials Examined**"), and subject to the limitations hereinafter set forth, this firm has confirmed the following with respect to the Project Leases and Lands and the Thomas 119-1H Well (collectively, the "**Assets**").

(i) The Company owns and holds Defensible Title to an undivided eighty percent (80%) working interest, and sixty percent (60%) net revenue interest, in and to six (6) oil, gas and mineral leases (the "**Project Leases**"), insofar as they cover the lands located in Nolan County, Texas as therein described (the "**Lands**"), (the Project Leases and Lands being more particularly described and set forth on Exhibit B, attached hereto).

The Company's ownership of the Project Leases and Lands is subject to: (1) all of the terms, covenants and conditions set forth in the Project Leases; (2) any and all documents filed in the real property records, or other publicly available records, of Nolan County, Texas insofar as pertaining to the Project Leases or Lands.

(ii) Winchester Energy is the beneficial owner of a 50% working interest (reducing to a 25% working interest after payout) in the Thomas 119-1H well. Winchester has paid approximately US\$2,000,000 to date for its 50% working interest in the Thomas 119-1H well. Once Winchester has been reimbursed or paid out its costs (which are approximately US\$2,000,000 to date) from its 50% share of net revenues attributable to its 50% working interest, this working interest will reduce to 25%.

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In the next two subsequent wells drilled on the Thomas Ranch 119 lease, Winchester Energy will pay up to 75% of the actual costs to earn up to 50% working interest. All future wells beyond the subsequent two wells shall be drilled on a 50% basis to earn 50% working interest.

Winchester Energy's interest in and to the Thomas 119-1H Well is pursuant, and subject, to that certain Thomas 119-1H Working Interest Purchase and WhiteHat Ranch Option Letter Agreement dated February 27, 2014 (the "**Thomas Well Agreement**," as more particularly described in Exhibit C), and in accordance with that certain Deed of Assignment of Rights to Thomas 119H Well and Option Over White Hat Leases dated April 30, 2014 (the "**Deed of Assignment**," as more particularly described in Exhibit C) as well as being in accordance with the Joint Operating Agreement dated April 30, 2014 (the "**Thomas Well JOA**" as more particularly described in Exhibit C).

2. Ownership of, interest in or rights to the Project Leases and Lands and the Thomas 119-1H Well is subject to the terms, covenants, conditions, burdens and encumbrances created in:

- (i) that Acreage Purchase Letter Agreement dated January 15, 2013 between CraRuth Energy Corporation *et al*, and Amerril Energy LLC (the "**Acreage Purchase Letter**," as more particularly described on Exhibit C), including without limitation, the obligation to bear the costs and expenses associated with the twenty percent (20%) Carried Working Interest for CraRuth Energy Corporation and MCG Drilling Investments, LLC in the first well drilled on the Project Leases;
- (ii) that Participation Letter Agreement dated January 15, 2013 between Amerril Energy LLC and Carina Energy Partners, LLC (the "**Participation Agreement**," as more particularly described on Exhibit C).

3. Other than the contracts, agreements or documents relating to the Assets, as more particularly described and set forth on Exhibit C, to our knowledge and based on representations made to us by certain Company officers after reasonable inquiry, the Company is not a party to any material contracts with respect to the Assets which require significant expenditure or contain long term obligations.

4. Our firm has not independently undertaken an investigation of the real property records of Nolan County, Texas, and we have relied solely on the documents provided by the Company in forming the opinion(s) given in this Section III.C. Therefore, we assumed the authenticity of the Materials Examined, the capacity and authorization of the parties and their respective signatories thereto, and that no other instruments, documents or other agreements are filed of record in Nolan County, Texas which would otherwise affect the ownership of the Assets.

5. As used herein, "**Defensible Title**" shall mean, as to the Project Leases, such title that, based upon the Materials Examined: (i) is free from reasonable doubt to the end that a

## 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA (cont.)

July 28, 2014  
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prudent purchaser engaged in the business of the ownership, development and operation of producing oil and gas properties, with knowledge of all relevant facts and their legal bearing, would be willing to accept and pay full value for the Project Leases; and (ii) is free and clear of liens and material encumbrances and defects, except for permitted encumbrances.

D. General:

1. To our knowledge and based upon representations of certain Company officers, the Company is not party to any loan agreement and has not granted a security interest in any of its assets or guarantees in favor of third parties.

2. To our knowledge and based upon representations of certain Company officers, there is no litigation, proceeding or governmental investigation pending or overtly threatened against the Company, and the Company is not currently subject to any environmental liability.

3. To our knowledge and based upon representations of certain Company officers, the Company is not a party to any employment agreement and, to our knowledge, currently has no employees.

4. To our knowledge and based upon representations of certain Company officers, the Company does not have any legal obligation to hold insurance with respect to the Assets.

5. The Company has all requisite corporate power and authority to execute and deliver the Agreement and to perform its obligations thereunder. The execution, delivery and performance of the Agreement by the Company have been duly authorized by all necessary corporate action on the part of the Company.

6. The execution and delivery by the Company of the Agreement and the performance by the Company of its obligations thereunder will not conflict with, constitute a default under or violate (i) any of the terms, conditions or provisions of the Certificate of Formation or by-laws of the Company, (ii) Texas or federal law or regulation (other than federal and state securities or blue sky laws, as to which we express no opinion in this paragraph), or (iii) any judgment, writ, injunction, decree, order or ruling of any court or governmental authority binding on the Company of which we are aware.

7. No consent, approval, waiver, license or authorization or other action by or filing with any federal governmental authority is required in connection with the execution and delivery by the Company of the Agreement, the consummation by the Company of the transactions contemplated thereby or the performance by the Company of its obligations thereunder, except for federal and state securities or blue sky laws, related to each Subscriber that is a US person, as to which we express no opinion in this paragraph.

8. Neville Henry and Hugh Idstein have been properly authorized by the shareholders of Company (i.e., the Subscribers referenced in the Contribution Agreements) to execute all documents necessary to enable the Company to effect the transactions contemplated by the Contribution Agreements, for receipt of the Project Leases by assignment, and the Agreement.

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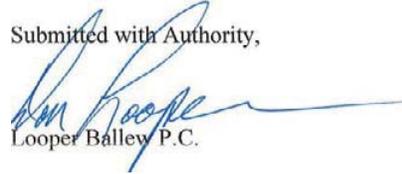
9. In addition to the qualifications and assumptions set forth elsewhere herein, this opinion is limited by, subject to, and based on the following:

- (i) This Report is limited in all respects to the laws of the State of Texas and United States federal law. We are licensed to practice law in the State of Texas only and do not hold ourselves out to be experts on the laws of any jurisdiction other than the State of Texas and the federal laws of the United States of America. Our opinion contained in Section II.A.1. regarding existence and good standing is based solely on certificates or other documentation issued by governmental authorities and no opinion is expressed beyond the meaning ascribed to such certificates by the issuing governmental authorities. We express no opinion with respect to any laws or regulations of any county, city, or other political subdivision of any state.
- (ii) We express no opinion regarding the accuracy or completeness of any of the representations and warranties by officers of the Company, nor of any information provided to Winchester Energy by the Company.
- (iii) We have assumed that no holder, beneficial owner, subscriber, or affiliate caused the Company to be used for the purpose of perpetrating and did perpetrate an actual fraud on an obligee of the Company primarily for the direct personal benefit of the holder, beneficial owner, subscriber, or affiliate.
- (iv) We have not performed a docket search of any litigation that might have been filed against the Company, but to our knowledge there are none and we rely upon officers of the Company that no claims are threatened or pending.
- (v) This Report is given as of the date hereof and we assume no obligation to update or supplement this Report to reflect any facts or circumstances, which may hereafter come to our attention, or any changes in law, which may hereafter occur.
- (vi) You have not requested, and we specifically disclaim, any opinion regarding the effect of any tax law, whether under the laws of the State of Texas, the federal laws of the United States or any other jurisdiction as a result of the transactions contemplated by the Agreement or the Contribution Agreements.
- (vii) The opinions expressed herein are rendered solely for your benefit in connection with the transactions described herein. These opinions may not be used or relied upon by any other person, nor may this Report or any copies hereof be furnished to a third party, filed with a governmental agency, quoted, cited or otherwise referred to without our prior written consent.

## 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA (cont.)

July 28, 2014  
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Submitted with Authority,



Looper Balley P.C.

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EXHIBIT A

SHAREHOLDERS OF CEP NOLAN PARTNERS INC.

SHAREHOLDERS	ORDINARY COMMON STOCK
Trend E&P LLC	1,206,281
Lugano Holdings LLC	1,206,281
Eaglewood Energy LLC	2,239,340
Peter Donald Allchurch	2,274,380
JDK Nominees Pty Ltd atf the Kenny Capital Trust	2,274,380
Hugh Wallace-Smith	1,652,892
Alan Haldane Family Trust	826,446
Berenes Nominees	2,066,116
RWH Nominees Pty Ltd	1,900,826
Bring on Retirement Ltd	2,479,338
Agens Pty Ltd	413,223
Jason Peterson & Lisa Peterson	1,239,669
Kyle B. Haynes	743,802
Nicole Gallin & Kyle Haynes	495,868
John Della Bosca	413,223
Asprey Pty Ltd	1,732,231
Magaurite Pty Ltd atf Peter Nelson Superfund	1,212,562
Stanley Roger Pty Ltd	2,165,289
Linesat Pty Ltd	1,299,174
Mr Greg Hacksaw	866,116
Raejan Pty Ltd	1,732,231
Helmet Nominees Pty Ltd	1,299,174
Mr Garry Noel Bungey & Mrs Vivienne Alice Nola Bungey	866,116
Seneschal WA Pty Ltd	866,116
ESPB Investments Inc.	16,528,926
<b>Total</b>	<b>50,000,000</b>

Shareholders of CEP Nolan Partners Inc.  
Exhibit A

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# 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA (cont.)

## EXHIBIT B

### PROJECT LEASES

#### LEASE 1

Lease Date: April 25, 2005  
Recording Date: November 16, 2005  
Volume/Page: 760/278  
Lease Form: Prod 88 (1994)  
Lessor: Billy Bruce Bridgford and wife, Judy Bridgford  
Lessee: G.M. McCaslin  
Leased Premises: 220 acres, more or less, being the South 220 acres of Section 40, Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas  
Tract: BD 40-2 (*Tranche B*)  
Expiry Date: 25 April 2015  
Amendments: Vol. 922 Page: 23  
Vol. 1091 Page: 265  
Vol. 1273 Page: 127

#### LEASE 2

Lease Date: April 25, 2005  
Recording Date: November 16, 2005  
Volume/Page: 760/283  
Lease Form: Prod 88 (1994)  
Lessor: Billy Bruce Bridgford  
Lessee: G.M. McCaslin  
Leased Premises: 420.0 acres of land, more or less, being all of Section 40, Block 1A, H&TC Ry. Company Survey, Nolan County, Texas, SAVE AND EXCEPT the South 220.0 acres of said Section 40  
Tract: BD 40-1 (*Tranche B*)  
Expiry Date: 25 April 2015  
Amendments: Vol. 756 Page: 12  
Vol. 1091 Page: 263  
Vol. 1273 Page: 127

Project Leases  
Exhibit B

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**LEASE 3**

Lease Date: September 21, 2011  
Recording Date: October 7, 2011  
Volume/Page: 1091/258  
Lease Form: Prod 88 (1994)  
Lessor: Billy Bruce Bridgford and David Thomas Bridgford  
Lessee: CraRuth Energy Corporation  
Leased Premises: Tract 1: 666.4 acres, more or less, being all of Section 74, Block 1-A, H&TC Ry. Company Survey, A-1345, Nolan County, Texas.  
Tract 2: 320 acres, more or less, being the East One-Half (E/2) of Section 75, Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas.  
Tract: Tract 1: BD 74-1 (*Tranche C*)  
Tract 2: BD 75-2 (*Tranche C*)  
Expiry Date: 21 September 2015  
Amendment: Vol. 1273 Page: 127

**LEASE 4**

Lease Date: October 12, 2011  
Recording Date: October 13, 2011  
Volume/Page: 1092/186  
Lease Form: Prod 88 (1994)  
Lessor: George Allen Thomas and Clyde Parks Thomas, Individually and as Attorney-in-Fact for Jackie Irene & Thomas Walters  
Lessee: CraRuth Energy Corporation  
Leased Premises: Tract 1: 640 acres, more or less, being all of Section 78, Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas.  
Tract 2: 640 acres, more or less, being all of Section 79, Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas.  
Tract: Tract 1: TM 78 – 1 (*Tranche B*)  
Tract 2: TM 79 – 1 (*Tranche B*)  
Expiry Date: 12 October 2014

**LEASE 5**

Lease Date: July 13, 2012  
Recording Date: October 19, 2012  
Volume/Page: 1164/24  
Lease Form: Prod 88 (1994)  
Lessor: Billy Bruce Bridgford and David Thomas Bridgford, both dealing in their separate property  
Lessee: CraRuth Energy Corporation

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## 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA (cont.)

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Leased Premises: Tract 1: 600.0 acres, more or less, being all of Section 103, Block 1-A, H&TC Ry. Company Survey, A-55, Nolan County, Texas, SAVE AND EXCEPT 40.00 acres assigned to the proration unit of the Ampack Oil Company-Bridgford #1 well, said well located in the NW/4 of Section 103.  
Tract 2: 164.2 acres, more or less, being the South 164.20 acres of Section 114, Block 1A, H&TC Ry. Company Survey, A-1591, Nolan County, Texas (not included in any Tranche)

Tract: Tract 1 (440 acres): BD 103-1 (*Tranche C*)  
Tract 1 (160 acres): BD 103-2 (*Tranche C*)

Expiry Date: 13 July 2015

### LEASE 6

Lease Date: August 9, 2012  
Recording Date: October 19, 2012  
Volume/Page: 1164/29  
Lease Form: Prod 88 (1994)  
Lessor: Clyde Parks Thomas, Individually and as Attorney-in- Fact for both Jackie Irene Thomas Walters and George Allen Thomas  
Lessee: CraRuth Energy Corporation

Leased Premises: Tract 1: 325.5 acres, more or less, being the South One-half (S/2) of Section 98, Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas.  
Tract 2: 40 acres, more or less, being the Southwest 40 acres of Section 99, Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas (SW/4SW/4).  
Tract 3: 616 acres, more or less, being all of Section 136, Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas, SAVE AND EXCEPT 40 acres being the Southwest Quarter of the Southeast Quarter of Section 136 designated as the proration unit for Robert Resources - Thomas Ranch #3.  
Tract 4: 320 acres, more or less, being the West One-Half (W/2) of Section 137 Block 1-A, H&TC Ry. Company Survey, Nolan County, Texas

Tract: Tract 1: TM 98-2 (*Tranche B*)  
Tract 2: TM 99-1 (*Tranche B*)  
Tract 3: TM 136-1 (*Tranche A*)  
Tract 4 (160 acres): TM 137-1A (*Tranche A*)  
Tract 4 (160 acres): TM 137-1B (*Tranche B*)

Expiry Date: 9 August 2015

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**EXHIBIT C  
MATERIALS EXAMINED**

<u>Document</u>	<u>Parties</u>	<u>Document Date</u>	<u>Effective Date</u>	<u>Book</u>	<u>Page</u>	<u>County, State</u>
1	Thomas 119-1H Working Interest Purchase and White Hat Ranch Option Letter Agreement	27-Feb-14			Unrecorded	
	Carina Energy Partners, LLC					
2	Stipulation of Interest	14-May-14	1-Jan-13	1277	124	Nolan County, Texas
	CraRuth Energy Corporation					
	Amerill Energy, LLC					
3	Stipulation of Interest	14-May-14	1-Jan-13	1277	138	Nolan County, Texas
	Amerill Energy, LLC					
	CraRuth Energy Corporation					
4	Assignment of Oil, Gas and Mineral Leases		16-Jan-13	1183	121	Nolan County, Texas
	CraRuth Energy Corporation					
	Amerill Energy, LLC					
5	Assignment of Oil, Gas and Mineral Leases		18-Jan-13	1182	281	Nolan County, Texas
	CraRuth Energy Corporation					
	Amerill Energy, LLC					
6	Assignment of Oil, Gas and Mineral Leases		14-Feb-13	1189	222	Nolan County, Texas
	CraRuth Energy Corporation					
	Amerill Energy, LLC					
7	Correction Assignment of Oil, Gas and Mineral Leases		16-Jan-13	1259	242	Nolan County, Texas
	CraRuth Energy Corporation					
	Amerill Energy, LLC					
8	Assignment of Oil, Gas and Mineral Leases		16-Jan-13	1218	129	Nolan County, Texas
	Amerill Energy, LLC					
	CraRuth Energy Corporation					
	Carina Energy Partners, LLC					

Materials Examined  
Exhibit C

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## 5. Legal Report on the Company's Oil and Gas Assets in Texas, USA (cont.)

July 29, 2014  
Page 2

9	Assignment of Oil, Gas and Mineral Leases	Amerril Energy, LLC Carina Energy Partners, LLC	18-Jan-13	1218	134	Nolan County, Texas
10	Assignment of Oil, Gas and Mineral Leases	Amerril Energy, LLC Carina Energy Partners, LLC	14-Feb-13	1218	139	Nolan County, Texas
11	Correction Assignment of Oil, Gas and Mineral Leases	Amerril Energy, LLC Carina Energy Partners, LLC	16-Jan-13	1259	252	Nolan County, Texas
12	Acreage Purchase Letter Agreement	CraRuth Energy Corporation MCG Drilling Investments, LLC Amerril Energy, LLC	15-Jan-13		Unrecorded	
13	Participation Letter	Amerril Energy, LLC Carina Energy Partners, LLC	15-Jan-13		Unrecorded	
14	Deed of Assignment of Rights to Thomas 119-IH Well and Option Over White Hat Leases	Carina Energy Partners, LLC Winchester Energy Limited	30-Apr-14		Unrecorded	
15	Joint Operating Agreement for the Thomas 119-IH Well	Carina Energy Partners, LLC CraRuth Energy Corporation	30-Apr-14		Unrecorded	

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# 6. Investigating Accountant's Report



## 6. Investigating Accountant's Report (cont.)



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PO Box 700 West Perth WA 6872  
Australia

31 July 2014

The Directors  
Winchester Energy Limited  
Level 1, 100 Havelock Street  
West Perth WA 6005

Dear Directors

### INVESTIGATING ACCOUNTANT'S REPORT

#### 1. Introduction

We have been engaged by Winchester Energy Limited ('Winchester' or 'the Company') to prepare this Investigating Accountant's Report ('Report') on the historical financial information and pro forma historical financial information of Winchester for inclusion in a prospectus ('Prospectus') to be issued by the Company in respect of the proposed initial public offering and listing on the Australian Securities Exchange ('ASX'). Broadly, the Prospectus invites investors to apply for 75,000,000 Shares at an issue price of A\$0.20 each to raise A\$15,000,000 (before associated costs) ('the Offer').

The Offer is subject to a minimum subscription of A\$10,000,000. The Company will accept oversubscriptions in respect of the Offer for up to 25,000,000 additional Shares at an issue price of A\$0.20 each to raise an additional A\$5,000,000 (before associated costs). If this occurs, the total raising under the Offer will comprise 100,000,000 Shares at an issue price of A\$0.20 each to raise A\$20,000,000 (before associated costs).

All Shares offered under this Prospectus will rank equally with the existing Shares on issue.

Expressions defined in the Prospectus have the same meaning in this Report. BDO Corporate Finance (WA) Pty Ltd ('BDO') holds an Australian Financial Services Licence (AFS Licence Number 316158).



## 2. Scope

### Historical financial information

You have requested BDO to review the following historical financial information of Winchester included in the Prospectus:

- The Statement of Profit or Loss and Other Comprehensive Income for the period ended 31 May 2014;
- The Statement of Financial Position as at 31 May 2014; and
- The Statement of Changes in Equity for the period ended 31 May 2014.

(collectively the 'historical financial information').

The historical financial information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and Winchester's adopted accounting policies. The historical financial information has been extracted from the financial report of Winchester for the period ended 31 May 2014, which was reviewed by BDO Audit (WA) Pty Ltd in accordance with the Australian Auditing Standards. BDO Audit (WA) Pty Ltd issued an unmodified opinion on the financial report.

The historical financial information is presented in the Appendices to this report in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

### Pro Forma historical financial information

You have requested BDO to review the pro forma historical statement of financial position as at 31 May 2014 for Winchester referred to as the 'pro forma historical financial information'.

The pro forma historical financial information has been derived from the historical financial information of Winchester, after adjusting for the effects of any subsequent events described in section 7 and the pro forma adjustments described in section 8. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 7 and section 8, as if those events or transactions had occurred as at the date of the historical financial information. Due to its nature, the pro forma historical financial information does not represent the company's actual or prospective financial position.

## 6. Investigating Accountant's Report (cont.)

### 3. Background

Winchester was incorporated on 17 March 2014 and is focused on the exploration, development and production of oil and gas in Texas, USA. The current directors and senior management of Winchester are:

- Mr Peter Allchurch, Non executive Chairman;
- Mr Neville Henry, Managing Director;
- Mr James Hodges, Non executive Director;
- Mr John Kenny, Non executive Director; and
- Mr Nicholas Calder, Company Secretary.

Winchester holds a 50% working interest in the Thomas 119-1H well ('Thomas Well') located in Nolan County, Texas, USA. The Thomas well is subject to a joint venture with CraRuth Energy Corporation ('CraRuth'). The Company paid US\$2 million for its 50% working interest.

Please refer to section 1.3 of the Prospectus for information on the Thomas Well Project.

#### Acquisition of CEP Nolan Partners Inc.

On 24 June 2014, the Company executed a Purchase Agreement to acquire the entire share capital of CEP Nolan Partners Inc. ('CEP') from the shareholders of CEP ('CEP Vendors'). CEP's main asset is the Van Hoogen Oil project. The Van Hoogen Oil project is located in the developing Cline Shale oil play of central west Texas, USA. The project area covers the counties of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green, with major operators such as Devon Energy and Range Resources leasing tracts of land in the Cline Shale and experiencing successful horizontal drilling results.

The consideration payable by the Company is as follows:

- 51 million ordinary shares in Winchester;
- 14 million options in Winchester, with an exercise price of \$0.25 each and an expiry date of 30 April 2019;
- 1,000 Class A convertible milestone notes, with each note converting to 1,000 fully paid ordinary shares in Winchester in the event the Company announces to the ASX that it has attained average daily production of 500 barrels of oil equivalent per day ('BOEPD') for a period of 60 days from the oil and gas leases located within the Nolan County, Texas ('Class A Milestone Notes');
- 2,000 Class B convertible milestone notes, with each note converting to 1,000 fully paid ordinary shares in Winchester in the event the Company announces to the ASX that it has attained 2P Reserves of 5 million barrels of oil equivalent ('BOE') from the oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas ('Class B Milestone Notes');
- 3,000 Class C convertible milestone notes, with each note converting to 1,000 fully paid ordinary shares in Winchester in the event the Company announces to the ASX that it has attained 2P Reserves of 10 million BOE and average daily production of 1,000 BOEPD from the oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas ('Class C Milestone Notes').

The Class A, Class B and Class C Milestone Notes expire on 30 April 2019 (collectively referred to as 'the Milestone Notes'); and

- A deferred cash payment of US\$3.1 million (within 180 days of the following occurring):



- o settlement of the Acquisition; and
- o the drilling and completion and achievement of commercial scale successful oil and gas production from at least 4 wells in which Winchester has a working interest situated within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA on or before 30 April 2019. The achievement of commercial scale successful oil and gas production is defined as average oil and gas production during the first 30 days of oil and gas production of 250 or higher BOEPD ('Deferred Cash Payment').

(referred to as the 'Acquisition').

#### **4. Director's responsibility**

The directors of Winchester are responsible for the preparation of the historical financial information and pro forma historical financial information, including the selection and determination of pro forma adjustments made to the historical financial information and included in the pro forma historical financial information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of historical financial information and pro forma historical financial information that are free from material misstatement, whether due to fraud or error.

#### **5. Our responsibility**

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

## 6. Investigating Accountant's Report (cont.)

### 6. Conclusion

#### Historical financial information

Based on our review, which was not an audit, nothing has come to our attention which would cause us to believe the historical financial information as set out in the Appendices to this report does not present fairly, in all material aspects, the financial performance for the period ended 31 May 2014 or the financial position as at 31 May 2014 in accordance with the stated basis of preparation as described in section 2.

#### Pro-forma historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro forma historical financial information is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in section 2.

### 7. Subsequent Events

The pro-forma statement of financial position reflects the following events that have occurred subsequent to the period ended 31 May 2014:

- The Company has incurred director fees totalling \$114,000 from 1 June 2014 to 31 July 2014. These fees relate to services performed by companies associated with Mr Peter Allchurch, Mr Neville Henry, Mr James Hodges and Mr John Kenny with each director being paid a fee of A\$13,000, A\$25,000, A\$6,000 and A\$13,000 respectively per month; and
- The Company has incurred exploration expenditure on its Thomas Well project totalling A\$560,634 subsequent to 31 May 2014. This includes A\$160,634 relating to oil lease acquisition costs applicable to the Thomas Well, which was paid out of the Company's existing cash reserves and additional drilling costs relating to the Thomas Well project, which was paid through Director Loans. These Director Loans are interest free and are repayable on demand, but are secured against Winchester's assets.

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief, no other material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

### 8. Assumptions Adopted in Compiling the Pro-forma Statement of Financial Position

The pro-forma statement of financial position post issue is shown in Appendix 2. This has been prepared based on the reviewed financial statements as at 31 May 2014, the subsequent events set out in section 7, and the following transactions and events relating to the issue of Shares under this Prospectus:

- The issue of 50,000,000 Shares at an offer price of A\$0.20 each to raise A\$10,000,000 before costs based on the minimum subscription, or the issue of 75,000,000 Shares at an offer price of A\$0.20 each to raise A\$15,000,000 before costs based on the full subscription;
- Costs of the Offer, based on the full subscription are estimated to be \$1,143,786 and based on the minimum subscription are estimated to be \$839,061. These costs are to be offset against the contributed equity;



- On completion of the Offer, a share success fee of one Share for every A\$6 of capital raised, will be issued to the Joint Lead Managers, based upon their respective firm's performance in the capital raising. Therefore under the minimum subscription, 1,666,667 shares may be issued to the Joint Managers and if the Offer is fully subscribed then 2,500,000 shares may be issued to the Joint Managers;
- On 29 July 2014, the Company entered into an agreement with Chatsworth Stirling Pty Ltd ('Chatsworth Stirling') whereby Chatsworth Stirling has agreed to provide consulting services to the Company in relation to the Acquisition and the Offer. In the event that more than A\$10,000,000 is raised under the Offer, the Company will first pay all fees as required to the Joint Lead Managers, and to the extent that 8,000,000 Shares have not been issued to the Joint Lead Managers, the remaining balance will be paid to Chatsworth Stirling. Therefore under the minimum subscription, at least 6,333,333 shares will be issued to Chatsworth Stirling. If the Offer is fully subscribed then at least 5,500,000 shares will be issued to Chatsworth Stirling.
- Contingent on completion of the Offer, the Company will acquire CEP with the consideration payable for the Acquisition consisting of the following:
  - The issue of 51 million ordinary shares in Winchester;
  - The issue of 14 million Options in Winchester exercisable at \$0.25 on or before 30 April 2019;
  - 1,000 Class A convertible milestone notes, 2,000 Class B convertible milestone notes and 3,000 Class C convertible milestone notes, convertible to shares subject to certain milestones being achieved as set out in section 3; and
  - A deferred cash payment of US\$3.1 million payable subject to certain milestones being achieved as set out in section 3.

## 6. Investigating Accountant's Report (cont.)

### 9. Disclosures

BDO Corporate Finance (WA) Pty Ltd is the corporate advisory arm of BDO in Perth. Without modifying our conclusions, we draw attention to the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

Neither BDO Corporate Finance (WA) Pty Ltd nor BDO, nor any director or executive or employee thereof, has any financial interest in the outcome of the proposed transaction except for the normal professional fee due for the preparation of this Report.

Consent to the inclusion of the Investigating Accountant's Report in the Prospectus in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully

BDO Corporate Finance (WA) Pty Ltd



Adam Myers  
Director



APPENDIX 1

WINCHESTER ENERGY LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Reviewed for the period ended 31-May-14 \$
Interest income	1,178
Expenses	
Bank fees	564
Directors fees	114,000
Consulting & accounting	16,000
IT operating expense	928
Legal expenses	2,705
Rent	12,954
Travel - International	1,979
Loss before income tax expense	(147,952)
Income tax benefit/(expense)	-
Net Loss for the period	(147,952)

This consolidated statement of profit or loss and other comprehensive income shows the historical financial performance of Company and is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4. Past performance is not a guide to future performance.

## 6. Investigating Accountant's Report (cont.)

**APPENDIX 2**  
**WINCHESTER ENERGY LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Notes	Winchester	Subsequent events	Pro-forma adjustments		Pro-forma after Offer	
		Reviewed as at 31-May-14		\$10 million raising	\$15 million raising	\$10 million raising	\$15 million raising
		\$	\$	\$	\$	\$	\$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	2	803,232	(160,634)	9,160,939	13,856,214	9,803,537	14,498,812
Trade and other receivables		50,000	-	-	-	50,000	50,000
Fixed assets		8,990	-	-	-	8,990	8,990
<b>TOTAL CURRENT ASSETS</b>		<b>862,222</b>	<b>(160,634)</b>	<b>9,160,939</b>	<b>13,856,214</b>	<b>9,862,527</b>	<b>14,557,802</b>
<b>NON CURRENT ASSETS</b>							
Exploration expenditure	3	2,153,321	560,634	6,497,700	6,497,700	9,211,655	9,211,655
<b>TOTAL NON CURRENT ASSETS</b>		<b>2,153,321</b>	<b>560,634</b>	<b>6,497,700</b>	<b>6,497,700</b>	<b>9,211,655</b>	<b>9,211,655</b>
<b>TOTAL ASSETS</b>		<b>3,015,543</b>	<b>400,000</b>	<b>15,658,639</b>	<b>20,353,914</b>	<b>19,074,182</b>	<b>23,769,457</b>
<b>CURRENT LIABILITIES</b>							
Trade and other payables	4	109,245	514,000	-	-	623,245	623,245
<b>TOTAL CURRENT LIABILITIES</b>		<b>109,245</b>	<b>514,000</b>	<b>-</b>	<b>-</b>	<b>623,245</b>	<b>623,245</b>
<b>NON CURRENT LIABILITIES</b>							
Financial liabilities		5,400	-	-	-	5,400	5,400
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>5,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,400</b>	<b>5,400</b>
<b>TOTAL LIABILITIES</b>		<b>114,645</b>	<b>514,000</b>	<b>-</b>	<b>-</b>	<b>628,645</b>	<b>628,645</b>
<b>NET ASSETS</b>		<b>2,900,898</b>	<b>(114,000)</b>	<b>15,658,639</b>	<b>20,353,914</b>	<b>18,445,537</b>	<b>23,140,812</b>
<b>EQUITY</b>							
Share capital	5	3,047,250	-	13,628,639	18,323,914	16,675,889	21,371,164
Accumulated losses	6	(147,952)	(114,000)	-	-	(261,952)	(261,952)
Option premium reserve	7	1,600	-	2,030,000	2,030,000	2,031,600	2,031,600
<b>TOTAL EQUITY</b>		<b>2,900,898</b>	<b>(114,000)</b>	<b>15,658,639</b>	<b>20,353,914</b>	<b>18,445,537</b>	<b>23,140,812</b>

The consolidated pro-forma statement of financial position after the Offer is as per the consolidated statement of financial position before the Offer adjusted for any subsequent events and the transactions relating to the issue of shares pursuant to this Prospectus. The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.



**APPENDIX 3**  
**WINCHESTER ENERGY LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Notes	Winchester		Pro-forma adjustments		Pro-forma after Offer	
		Reviewed as at 31-May-14	Subsequent events	\$10 million raising	\$15 million raising	\$10 million raising	\$15 million raising
		\$	\$	\$	\$	\$	\$
<i>Comprehensive income for the period</i>							
Current year losses	6	(147,952)	(114,000)	-	-	(261,952)	(261,952)
<b>Total comprehensive income for the period</b>		<b>(147,952)</b>	<b>(114,000)</b>	<b>-</b>	<b>-</b>	<b>(261,952)</b>	<b>(261,952)</b>
<i>Transactions with equity holders in their capacity as equity holders</i>							
Contributed equity, net of transaction costs	5	3,047,250	-	13,628,639	18,323,914	16,675,889	21,371,164
Option premium reserve	7	1,600	-	2,030,000	2,030,000	2,031,600	2,031,600
<b>Total transactions with equity holders</b>		<b>3,048,850</b>	<b>-</b>	<b>15,658,639</b>	<b>20,353,914</b>	<b>18,707,489</b>	<b>23,402,764</b>
<b>Balance at 31 May 2014</b>		<b>2,900,898</b>	<b>(114,000)</b>	<b>15,658,639</b>	<b>20,353,914</b>	<b>18,445,537</b>	<b>23,140,812</b>

The above consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.

## 6. Investigating Accountant's Report (cont.)

### APPENDIX 4

#### WINCHESTER ENERGY LIMITED

##### NOTES TO AND FORMING PART OF THE HISTORICAL FINANCIAL INFORMATION

#### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the historical financial information included in this Report have been set out below.

##### **Basis of preparation of historical financial information**

The historical financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of the Australian equivalents to International Financial Reporting Standards ('AIFRS'), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

The financial information has also been prepared on a historical cost basis, except for derivatives and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged. Non-current assets and disposal group's held-for-sale are measured at the lower of carrying amounts and fair value less costs to sell.

##### **Going Concern**

The historical financial information has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The ability of the Company to continue as a going concern is dependent on the success of the fundraising under the Prospectus. The Directors believe that the Company will continue as a going concern. As a result the financial information has been prepared on a going concern basis. However should the fundraising under the Prospectus be unsuccessful, the entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of liabilities that might be necessary should the Company not continue as a going concern.

##### **Reporting Basis and Conventions**

The report is also prepared on an accrual basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.



#### a) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Winchester at the end of the reporting period. A controlled entity is any entity over which Winchester has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated statement of financial position and statement of financial performance. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

#### b) Income Tax

The income tax expense or benefit (revenue) for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### c) Cash and Cash Equivalents

Cash and cash equivalents includes cash at bank and in hand, deposits held at call with financial institutions, other short-term highly liquid deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

## 6. Investigating Accountant's Report (cont.)

### d) Trade and other receivables

Trade receivables are recognised as the amount receivable and are due for settlement no more than 90 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off against the receivable directly unless a provision for impairment has previously been recognised.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Loans granted are recognised at the amount of consideration given or the cost of services provided to be reimbursed.

### e) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of GST.

#### *Interest*

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

### f) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

### g) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 30 days of recognition.

### h) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

### i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.



Cash flows are included in the statement of cash flow on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authorities are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**j) Exploration and Evaluation Expenditure**

Exploration and evaluation expenditure, including costs of acquiring the licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore the area are recognised in the statement of financial performance.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- I. The expenditures are expected to be recouped through successful development and exploitation or from sale of the area of interest; or
- II. Activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

When an area of interest is abandoned or the directors decide that it is not commercial, and accumulated costs in respect of that area are written off in the financial period the decision is made.

**k) Impairment of assets**

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

*Financial Assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

## 6. Investigating Accountant's Report (cont.)

### *Non-Financial Assets*

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of financial performance. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

### **l) Contributed Equity**

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

### **m) Financial Instruments**

#### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### *Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

### **n) Employee Benefits**

#### *Wages and Salaries, Annual Leave and Sick Leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the statement of financial position date are recognised in respect of employees' services rendered up to statement of financial position date and measured at amounts expected to be paid when the liabilities are settled.

Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of Other Payables and liabilities for annual and sick leave are included as part of Employee Benefit Provisions.



#### *Long Service Leave*

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the statement of financial position date using the projected unit credit method. Consideration is given to expect future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the statement of financial position date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *Share-based payments transactions*

The Company provides benefits to employees (including directors) of the Company in the form of share options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using Black-Scholes valuation model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, on a straight line basis over the period from grant date to the date on which the relevant employees become fully entitled to the award ("vesting date"). The amount recognised as an expense is adjusted to reflect the actual number that vest.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### **o) Accounting estimates and judgements**

In the process of applying the accounting policies, management has made certain judgements or estimations which have an effect on the amounts recognised in the financial information.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### *Valuation of share based payment transactions*

The valuation of share-based payment transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes model taking into account the terms and conditions upon which the instruments were granted.

#### *Options*

The fair value of options issued is determined using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

#### *Determination of fair values on exploration and evaluation assets acquired*

On initial recognition, the assets and liabilities of the acquired business are included in the statement of financial position at their fair values. In measuring fair value of exploration projects, management considers generally accepted technical valuation methodologies and comparable transactions in determining the fair value. Due to the subjective nature of valuation with respect to exploration projects with limited exploration results, management have determined the price paid to be indicative of its fair value.

## 6. Investigating Accountant's Report (cont.)

### *Recoverability of capitalised exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

### *Taxation*

The Company is subject to income taxes in Australia. Significant judgement is required when determining the Company's provision for income taxes. The Company estimates its tax liabilities based on the Company's understanding of the tax law.

	Reviewed	Pro-forma after Offer	
	31-May-14	\$10 million	\$15 million
<b>NOTE 2. CASH AND CASH EQUIVALENTS</b>	\$	\$	\$
Cash and cash equivalents	803,232	9,803,537	14,498,812
<i>Adjustments to arise at the pro-forma balance:</i>			
Reviewed balance of Winchester at 31 May 2014		803,232	803,232
<i>Pro-forma adjustments:</i>			
Proceeds from shares issued under this Prospectus		10,000,000	15,000,000
Capital raising costs		(839,061)	(1,143,786)
		9,160,939	13,856,214
<i>Subsequent events:</i>			
Purchases of oil leases applicable to the Thomas Well project		(160,634)	(160,634)
		(160,634)	(160,634)
Pro-forma Balance		9,803,537	14,498,812



	Reviewed 31-May-14	Pro-forma after Offer
<b>NOTE 3. EXPLORATION EXPENDITURE</b>	<b>\$</b>	<b>\$</b>
Exploration expenditure	2,153,321	9,211,655
<i>Adjustments to arrive at the pro-forma balance:</i>		
Reviewed balance of Winchester as at 31 May 2014		2,153,321
<i>Pro-forma adjustments:</i>		
Acquisition of CEP (see Note 8)		6,497,700
		<u>6,497,700</u>
<i>Subsequent events:</i>		
Additional costs of drilling the Thomas Well		400,000
Purchase of oil leases applicable to Thomas Well		160,634
		<u>560,634</u>
Pro-forma balance		<u>9,211,655</u>

	Reviewed 31-May-14	Pro-forma After Offer
<b>NOTE 4. TRADE AND OTHER PAYABLES</b>	<b>\$</b>	<b>\$</b>
Trade and other payables	109,245	623,245
<i>Adjustments to arise at the pro-forma balance:</i>		
Reviewed balance of Winchester as at 31 May 2014		109,245
<i>Subsequent events:</i>		
Accrued director fees for June and July 2014		114,000
Director Loans to cover additional drilling costs for Thomas Well		400,000
		<u>514,000</u>
Pro-forma Balance		<u>623,245</u>





	Reviewed 31-May-14	Pro-forma After Offer
<b>NOTE 7. OPTION PREMIUM RESERVE</b>	<b>\$</b>	<b>\$</b>
Option premium reserve	1,600	2,031,600
<i>Adjustments to arise at the pro-forma balance:</i>		
Reviewed balance of Winchester as at 31 May 2014		1,600
<i>Pro-forma adjustments:</i>		
Acquisition of CEP (see Note 8)		2,030,000
		<u>2,030,000</u>
Pro-forma Balance		<u>2,031,600</u>

Using the Black Scholes option pricing model the fair value of the Options issued as consideration to the CEP Vendors has been calculated. The following inputs were used in the valuation:

	Options
Underlying share price	\$0.20
Exercise price	\$0.25
Issue date	15-Jul-14
Expiration date	30-Apr-19
Life of the Options	4.96
Volatility	100%
Risk-free rate	2.88%

#### NOTE 8: ASSET ACQUISITION

A summary of the details with respect to the acquisition as included in our report is set out below. These details have been determined for the purpose of the pro forma adjustments as at 31 May 2014.

The acquisition of CEP by Winchester is not deemed to be a business combination, as CEP is not considered to be a business under *AASB 3 Business Combinations*. The Company has therefore treated the acquisition of CEP as an asset acquisition and have provisionally accounted for this under *AASB 2 Share Based Payments* whereby equity instruments were issued as consideration for the net assets of CEP. In accordance with AASB 2, the entity measures the goods and services received by reference to the fair value of those goods and services or if that is not considered reliable or obtainable then the fair value of equity instruments issued is assessed to obtain the value of the goods and services provided.

In the case of CEP, consideration needs to be given to whether it is possible to determine the fair value of the net assets of CEP. At the time of entering the purchase agreement, the statement of financial position of CEP being acquired by Winchester consisted of project leases, capitalised expenses and unsecured debts. The project leases relate to the acquisition of the Van Hoogen Oil Project and the capitalised expenses relate to subsequent work on the project. Set out below is the balance sheet of CEP as at 31 May 2014.

## 6. Investigating Accountant's Report (cont.)

Statement of Financial Position		Reviewed as at 31-May-14 US\$
<b>ASSETS</b>		
Project leases		6,252,354
Capitalised expenses		47,646
<b>TOTAL ASSETS</b>		<b>6,300,000</b>
<b>LIABILITIES</b>		
Unsecured debts		250,000
<b>TOTAL LIABILITIES</b>		<b>250,000</b>
<b>NET ASSETS</b>		<b>6,050,000</b>
<b>TOTAL EQUITY</b>		<b>6,050,000</b>

The Company has converted the net asset value of CEP to Australian Dollars as set out below.

Net Asset Value		31-May-14
Adjusted Net Assets (US\$)		6,050,000
Exchange rate (1USD:1.074AUD)		1.074
<b>Adjusted Net Asset Value (A\$)</b>		<b>6,497,700</b>

The fair value of the asset represents the net asset value of \$6,497,700. Per AASB 2 paragraph 10, given the fair value of the goods and services received can be estimated reliably, the corresponding increase in equity shall be accounted for directly.

Normally the \$6,497,700 would be allocated directly to equity. However, the consideration payable includes ordinary shares, options, convertible milestone notes and deferred cash consideration. Under AASB 2, the entity shall measure the equity components as the difference between the fair value of the goods and services received and the fair value of the equity instrument. The different components of the consideration payable can be split as follows:

- Shares issued: The fair value of the shares issued represents the fair value of the asset less the fair value of the options.
- Options issued: 14 million options in Winchester, with an exercise price of \$0.25 each and an expiry date of 30 April 2019. The fair value has been determined using the Black-Scholes option pricing model with the inputs per Note 7.
- Convertible milestone notes: The Company has been unable to determine, with any certainty whether the conditions for the convertible milestone notes will be satisfied at this point in time. Winchester is unable to reliably assess the value of the CEP assets being acquired if these conditions were to be met. For these reasons, the Company has not assigned a value to the convertible milestone notes.
- Deferred Cash Payment: Winchester will be required to pay US\$3.1 million on the achievement of commercial scale successful oil and gas production from at least 4 wells on or before 30 April 2019. The Company is unable to determine, with any certainty whether this condition will be satisfied at this point in time. The Company is also unable to reliably assess the value of the CEP assets being acquired if this condition was to be met. For these reasons, Winchester has not assigned a value to the Deferred Cash Payment.



**NOTE 9: RELATED PARTY DISCLOSURES**

Transactions with Related Parties and Directors Interests are disclosed in the Prospectus.

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

At the date of the report no material commitments or contingent liabilities exist that we are aware of, other than those disclosed in the Prospectus.

**NOTE 11: HISTORICAL FINANCIAL INFORMATION**

Winchester does not consider it appropriate to disclose three years historical financial information because the Company has only been in operation since 17 March 2014. We have therefore included the most recent statement of profit or loss and other comprehensive income and statement of financial position, reviewed as at 31 May 2014, as detailed at Appendix 1 and Appendix 2 respectively and consider that these provide sufficient detail of historical financial information for the Company.

# 7. Financial Information

## 7.1 INTRODUCTION

This Section details the Historical Financial Information and Pro Forma Financial Information of the Company (collectively, the **Financial Information**). The basis for preparation and presentation is detailed below.

The Financial Information was prepared by management and was adopted by the Directors. The Directors are responsible for the inclusion of all Financial Information in this Prospectus. BDO Corporate Finance (WA) Pty Ltd (**BDO**) has prepared an Investigating Accountant's Report in respect of the Financial Information. A copy of the report, together with an explanation of the scope of BDO's work, is in Section 6.

The Historical Financial Information and Pro Forma Financial Information has been prepared in accordance with the measurement and recognition criteria (but not the disclosure requirements) of the Australian Accounting Standards and the significant accounting policies detailed in Note 1 to the Financial Information. The Historical Financial Information comprises financial information of the Company which has been extracted from the financial statements of the Company as at 31 May 2014. The Historical and Pro Forma Financial Information is presented in an abbreviated form insofar as it does not include all the disclosures and notes required in an annual financial report prepared in accordance with the Australian Accounting Standards and the Corporations Act.

## 7.2 HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information for the Company in this Section 7 comprises:

- (a) the Statement of Financial Position of the Company as at 31 May 2014; and
- (b) the notes to the Financial Information are documented at Note 1 of the Investigating Accountants Report, (collectively the **Historical Financial Information**).

## 7.3 PRO FORMA FINANCIAL INFORMATION

The Pro Forma Financial Information of the Company (following the completion of the Acquisition) on the following page comprises:

- (a) the unaudited Pro Forma Consolidated Statement of Financial Position of the Company as at 31 May 2014, which assumes completion of the pro forma transactions as detailed in the Investigating Accountants Report, Section 7 Subsequent Events and Section 8 Assumptions Adopted in Compiling the Pro-forma Statement of Financial Position at this date; and
- (b) the notes to the Pro Forma Financial Information are documented at Note 1 of the Investigating Accountants Report, (collectively the **Pro Forma Financial Information**).



Pro Forma Financial Information	Historical Financial Information Reviewed 31 May 2014	Pro-forma Financial Information Offer of \$10,000,000	Pro-forma Financial Information Offer of \$15,000,000	Pro-forma Financial Information Offer of \$20,000,000
	A\$	A\$	A\$	A\$
<b>Current Assets</b>				
Cash and cash equivalents	803,232	9,803,537	14,498,812	19,194,087
Trade and Other Receivables	50,000	50,000	50,000	50,000
Fixed Assets	8,990	8,990	8,990	8,990
<b>Total Current Assets</b>	<b>862,222</b>	<b>9,862,527</b>	<b>14,557,802</b>	<b>19,253,077</b>
<b>Non Current Assets</b>				
Exploration Expenditure	2,153,321	9,211,655	9,211,655	9,211,655
<b>Total Non Current Assets</b>	<b>2,153,321</b>	<b>9,211,655</b>	<b>9,211,655</b>	<b>9,211,655</b>
<b>Total Assets</b>	<b>3,015,543</b>	<b>19,074,182</b>	<b>23,769,457</b>	<b>28,464,732</b>
<b>Current Liabilities</b>				
Trade and Other Payables	109,245	623,245	623,245	623,245
<b>Total Current Liabilities</b>	<b>109,245</b>	<b>623,245</b>	<b>623,245</b>	<b>623,245</b>
<b>Non Current Liabilities</b>				
Financial Liabilities	5,400	5,400	5,400	5,400
Total Non Current Liabilities	5,400	5,400	5,400	5,400
Total Liabilities	114,645	628,645	628,645	628,645
<b>Net Assets</b>	<b>2,900,898</b>	<b>18,445,537</b>	<b>23,140,812</b>	<b>27,836,087</b>
<b>Equity</b>				
Share Capital	3,047,250	16,675,889	21,371,164	26,066,439
Accumulated Losses	(147,952)	(261,952)	(261,952)	(261,952)
Option Premium Reserve	1,600	2,031,600	2,031,600	2,031,600
<b>Total Equity</b>	<b>2,900,898</b>	<b>18,445,537</b>	<b>23,140,812</b>	<b>27,836,087</b>

## 8. Material Contracts

### 8.1 CEP PURCHASE AGREEMENT

As detailed in Section 1.4, the Company, CEP and each of the Vendors have entered into the CEP Purchase Agreement pursuant to which the Company has agreed to acquire all of the shares in CEP.

The key terms of the CEP Purchase Agreement are as follows:

- (a) **Conditions:** the Acquisition is subject to and conditional upon:
- (i) the Company obtaining all necessary regulatory and Shareholder approvals required to complete the Acquisition;
  - (ii) the Company receiving in principle approval from ASX for the admission of the Company's securities to the Official List on conditions reasonably acceptable to the Company;
  - (iii) the Company receiving applications from investors to subscribe for the Minimum Subscription; and
  - (iv) completion of the ESPB Contribution Agreement and the Vendor Contribution Agreement,
- (together, the **Conditions**).
- The Conditions must be satisfied on or before 30 September 2014.
- (b) **Completion date:** completion of the Acquisition will occur on the date which is twenty (20) business days after the satisfaction (or waiver) of the Conditions (or such earlier date as agreed by the Company, CEP and the Vendors).
- (c) **Consideration:** the Company must issue the following Securities to the Vendors (in aggregate) in consideration for the Acquisition:
- (i) 51,000,000 Shares;
  - (ii) 14,000,000 Options;
  - (iii) 1,000 Class A Convertible Milestone Notes;
  - (iv) 2,000 Class B Convertible Milestone Notes; and
  - (v) 3,000 Class C Convertible Milestone Notes,
- (together, the **Vendor Securities**).
- (d) **Deferred Cash Payment:** the Company will pay the Vendors, in aggregate, an amount of US\$3,100,000 within 180 days of the completion of the following two matters:
- (i) completion of the Acquisition; and
  - (ii) the drilling, completion and achievement of average oil and gas production during the first 30 days of oil and gas production of 250 or higher barrels of oil equivalent per day (boepd) from at least 4 wells in which the Company has any working interest situated within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, United States,
- (the **Deferred Cash Payment**). The Deferred Cash Payment will not be payable if the matter in Section 8.1(d)(ii) above is not completed on or before 30 April 2019.
- (e) **Warranties:** the CEP Purchase Agreement contains warranties customary for an agreement of its nature.
- (f) **Termination:** the Company or a majority of Vendors (being those Vendors who in aggregate hold more than 90% of the combined number of shares in CEP) may terminate the CEP Purchase Agreement if:
- (i) the Conditions are not satisfied or waived by 30 September 2014; or
  - (ii) there is a material breach of any material term or warranty of the CEP Purchase Agreement and the breach continues to exist for ten (10) business days from the date a breach notice is given.

The Company has convened the General Meeting in order to, amongst other things, satisfy the Condition in Section 8.1(a)(i).



## 8.2 ESPB CONTRIBUTION AGREEMENT

As detailed in Section 1.7(b), CEP and ESPB have entered into the ESPB Contribution Agreement, pursuant to which ESPB has agreed to assign a 40% working interest in a portion of the Van Hoogen Oil Project Leases to CEP.

The key terms of the ESPB Contribution Agreement are as follows:

- (a) **Conditions:** the ESPB Contribution Agreement is subject to and conditional upon:
  - (i) the Company receiving applications from investors to subscribe for the Minimum Subscription; and
  - (ii) the Company simultaneously completing the Vendor Contribution Agreement.
- (b) **Consideration:** CEP is required to issue 16,528,926 shares of common stock in CEP to ESPB in consideration for the assignment of ESPB's 40% working interest in a portion of the Van Hoogen Oil Project Leases.
- (c) **Warranties:** in addition to customary representations and warranties relating to incorporation, authorisation and enforceability of the obligations contained in the ESPB Contribution Agreement, the ESPB Contribution Agreement also contains warranties from ESPB in favour of CEP in relation to the validity and title of the Van Hoogen Oil Project Leases.
- (d) **Governing law:** the ESPB Contribution Agreement is governed by the laws of Texas, USA.

## 8.3 VENDOR CONTRIBUTION AGREEMENT

As detailed in Section 1.7(b), CEP and each of the Vendors have entered into the Vendor Contribution Agreement pursuant to which the Vendors have agreed to assign a 40% working interest in a certain portion of the Van Hoogen Oil Project Leases and a further 80% working interest in another portion of the Van Hoogen Oil Project Leases to CEP.

The key terms of the Vendor Contribution Agreement are as follows:

- (a) **Conditions:** the Vendor Contribution Agreement is subject to and conditional upon:
  - (i) the Company receiving applications from investors to subscribe for the Minimum Subscription; and
  - (ii) the Company simultaneously completing the ESPB Contribution Agreement.
- (b) **Consideration:** CEP is required to issue an aggregate total of 33,471,074 shares of common stock in CEP to the Vendors in consideration for the assignment of a 40% working interest in a certain portion of the Van Hoogen Oil Project Leases and a further 80% working interest in another portion of the Van Hoogen Oil Project Leases.
- (c) **Warranties:** in addition to customary representations and warranties relating to incorporation, authorisation and enforceability of the obligations contained in the Vendor Contribution Agreement, the Vendor Contribution Agreement also contains warranties from the Vendors in favour of CEP in relation to the validity and title of the Van Hoogen Oil Project Leases.
- (d) **Governing law:** the Vendor Contribution Agreement is governed by the laws of Texas, USA.

## 8.4 ACREAGE PURCHASE AGREEMENT

The key terms of the Acreage Purchase Agreement were as follows:

- (a) **Assignment of working interest:** CraRuth and MCG Drilling assigned an 80% working interest in the Van Hoogen Oil Project Leases to Ameril, who subsequently assigned this working interest to Carina (which Carina then held on behalf of the Vendors).
- (b) **Retention of working interests and well costs:** CraRuth and MCG Drilling retained:
  - (i) a 20% carried working interest in the first well drilled on the Van Hoogen Oil Project Leases, with all of the drilling and development costs of the first well payable by CEP. CraRuth and MCG Drilling are required to pay 20% of the administrative and operating costs incurred after this first well is placed into production; and
  - (ii) a 20% working interest in any second and subsequent well(s). In respect of any second and subsequent well(s), CraRuth and MCG Drilling will be required to contribute 20% of the drilling and development costs, with the remaining 80% payable by CEP.

## 8. Material Contracts (cont.)

- (c) **Net revenue interest:** Amerril held (and following completion of the Vendor Contribution Agreement and ESPB Contribution Agreement, CEP will hold) a net revenue interest of 60% (being 80% of the 75% net revenue interest) in the Van Hoogen Oil Project Leases. Accordingly CraRuth, MCG Drilling and the original mineral owners retain in aggregate a 25% revenue interest in the Van Hoogen Oil Project Leases.
- (d) **Joint operating agreement:** the parties must enter into a standard joint operating agreement with respect to the development of the Van Hoogen Oil Project Leases.

Following completion of the Acquisition, the Company intends to negotiate and execute a standard joint operating agreement with CraRuth and MCG Drilling to define the working interest owners' relationship, rights and obligations for the mutual development of the Van Hoogen Oil Project Leases.

### 8.5 JOINT LEAD MANAGERS' MANDATE

On 15 July 2014, the Company entered into a mandate agreement with CPS Capital Group Pty Ltd (**CPS**) and Patersons Securities Limited (**Patersons**) (together, the **Joint Lead Managers**) (the **Mandate**).

Pursuant to the Mandate:

- (a) CPS and Patersons have been appointed as Joint Lead Managers to the Offer;
- (b) the Joint Lead Managers will establish and facilitate demand, on a reasonable endeavours basis, for the subscription of Shares under the Offer;
- (c) the Company is required to pay the Joint Lead Managers:
  - (i) a management fee of 2% of the gross amount raised from the Offer, payable in cash on completion of the Offer (**Management Fee**). The Management Fee will be divided equally between the Joint Lead Managers. In respect of any amount raised under the Offer from stockbroking firms other than the Joint Lead Managers, the Management Fee will be 1% of the gross amount raised from the Offer payable in cash and 1% of the gross amount raised under the Offer 1% payable in Shares;
  - (ii) a selling fee of 4% of the gross amount raised from the Offer, payable in cash on completion of the Offer (**Selling Fee**). The Selling Fee shall be divided between CPS and Patersons based upon their respective firm performance in relation to the Offer. In respect of any amount raised under the Offer from stockbroking firms other than the Joint Lead Managers, the selling fee will be 5% of the gross amount raised from the Offer, payable in cash. The Joint Lead Managers will be responsible for paying all selling fees to third parties out of the Selling Fee; and
  - (iii) a success fee of one (1) Share for every A\$6 of capital raised by the Joint Lead Managers (**Share Success Fee**). The Share Success Fee will be payable to CPS and Patersons based upon their respective firm performance.
- (d) the Joint Lead Managers will be reimbursed for all reasonable out of pocket expenses. Each Joint Lead Manager will obtain the Company's consent prior to incurring any single expenses greater than A\$2,000.

The fees detailed above are exclusive of GST.

### 8.6 CHATSWORTH STIRLING MANDATE

On 29 July 2014, the Company entered into an engagement letter with Chatsworth Stirling Pty Ltd (**Chatsworth Stirling**), pursuant to which Chatsworth Stirling has agreed to provide consulting services to the Company in relation to the Acquisition and Offer. In the event that A\$10,000,000 or more is raised by the Company under the Offer (being the Minimum Subscription), then the Company will first pay all the fees payable pursuant to the Mandate (refer to Section 8.5). Once these fees have been paid, to the extent that 8,000,000 Shares in the Company have not been issued pursuant to the Mandate, then the difference or remaining balance will be paid to Chatsworth Stirling or its nominees as a share success fee.



## 8.7 DEEDS OF INDEMNITY, INSURANCE AND ACCESS

Subject to obtaining the approval of Shareholders at the General Meeting, the Company proposes to enter into deeds of indemnity, insurance and access with each of the Directors (each a **Deed**). The material terms of the proposed form of the Deeds are as follows:

### (a) General indemnity

The Company agrees to indemnify the Director against all liabilities incurred by the Director as director of the Company or a Relevant Company, to the extent permitted by law.

The indemnity includes legal expenses, which are defined as expenses incurred:

- (i) in defending any proceedings relating to the Director's position with the Company or a Relevant Company, whether civil or criminal, in which judgment is given in the Director's favour or in which the Director is acquitted or which are withdrawn before judgment;
- (ii) in connection with any administrative proceedings relating to the Director's position with the Company or a Relevant Company, except proceedings which give rise to civil or criminal proceedings against the Director in which judgment is not given in the Director's favour or in which the Director is not acquitted or which arise out of conduct involving a lack of good faith; or
- (iii) in connection with any proceedings relating to the Director's position with the Company or a Relevant Company, whether civil or criminal, in which relief is granted to the Director under the Corporations Act by the court.

### (b) Other indemnities

The Director must repay to the Company any amount paid to the Director under the Deed to the extent that the Director receives money or is reimbursed under the insurance policy maintained by the Company in relation to Section 8.7(c) below or any other contract of insurance, or otherwise from any third party, in respect of any matters the subject of a payment or advance from the Company under the Deed. The Director must repay any such amount within 30 days after receipt of the relevant payment.

### (c) Insurance

To the extent permitted by law, the Company agrees that from the date of the Director's appointment until the Retirement Date, and, subject to Section 8.7(e), during the Insurance Run-Off Period, it will use its reasonable endeavours to procure and pay the premium for an insurance policy which insures the Director against all liabilities incurred by the Director acting directly or indirectly as a Director of the Company or a Relevant Company.

### (d) Access

During the Access Period, the Company is required to provide the Director with access to the Company's records (including, among others, Board papers, minutes, legal opinions, and other documents which the Company is required to keep by law). In addition, the Director is entitled to make a copy of such documents.

### (e) Insurance Run-Off

The provisions of the Deed relating to the provision and payment of the premium for an insurance policy insuring the Director during the Insurance Run-Off Period are subject to Shareholder approval, in accordance with the requirements of the Corporations Act.

The Company has obtained advice that the provision of and/or payment of a premium for an insurance policy insuring the Director during the Insurance Run-Off Period is likely to constitute a "benefit" within the meaning of Chapter 2D of the Corporations Act and, therefore, requires Shareholder approval under Chapter 2E of the Corporations Act, in accordance with section 200B of the Corporations Act. The Company is accordingly seeking Shareholder approval under Chapter 2E of the Corporations Act for the provision of and/or payment of a premium for an insurance policy insuring the Director during the Insurance Run-Off Period at the General Meeting (as part of seeking Shareholder approval to enter into the Deeds).

## 8. Material Contracts (cont.)

### 8.8 THOMAS DEED OF ASSIGNMENT AND THOMAS WELL JOA

As detailed in Section 1.3, the Company:

- (a) has entered into the Thomas Well Deed of Assignment pursuant to which it acquired a 50% working interest in the Thomas Well; and
- (b) is a party to the Thomas Well JOA.

The remaining 50% working interest in the Thomas Well is by CraRuth (25% working interest) and MCG Drilling (25% working interest).

Pursuant to the terms of Thomas Well Deed of Assignment, the Company's 50% working interest in the Thomas Well will reduce to a 25% working interest after well payback, that is, after cash return to the Company of its US\$2,000,000 investment out of its 50% share of net revenues from oil and gas production from the Thomas Well.

CraRuth is the operator of the Thomas Well under the terms of the Thomas Well JOA. The Thomas Well JOA includes standard, customary terms for an agreement of its nature in respect of a well in Texas, USA.

### 8.9 CONSULTANCY AGREEMENT – MR PETER ALLCHURCH

The Company has entered into a consultancy agreement with Energetico Pty Ltd (an entity controlled by Peter Allchurch) and Mr Peter Allchurch which commenced on 1 April 2014 (**Allchurch Consultancy Agreement**).

Pursuant to the Allchurch Consultancy Agreement, Energetico Pty Ltd is engaged by the Company to provide services to the Company. Mr Peter Allchurch will be the Non-Executive Chairman of the Company. Energetico Pty Ltd will be paid a consulting fee of A\$13,000 (plus GST) per month for at least 40 hours of service per month. Mr Allchurch will also be reimbursed for reasonable expenses incurred in the performance of his duties as Non-Executive Chairman of the Company.

The Allchurch Consultancy Agreement continues for a period of 2 years, with the option to extend the term by mutual written agreement of the parties. The Allchurch Consultancy Agreement contains standard termination provisions under which the Company must give 3 months' written notice of termination (or shorter period in the event of a material breach) or, alternatively, payment in lieu of service. At the end of that notice period the Company must pay to Energetico Pty Ltd an amount equal to the consulting fee that would otherwise be payable to Energetico Pty Ltd over a 3 month period if the engagement had not been terminated.

### 8.10 CONSULTANCY AGREEMENT – MR NEVILLE HENRY

The Company has entered into a consultancy agreement with Trend Exploration Consultants LLC (an entity controlled by Neville Henry) and Mr Neville Henry which commenced on 1 April 2014 (**Henry Consultancy Agreement**).

Under the Henry Consultancy Agreement, Trend Exploration Consultants LLC is engaged by the Company to provide services to the Company. Mr Neville Henry will be the Managing Director of the Company. Trend Exploration Consultants LLC will be paid a consulting fee of A\$25,000 (plus GST) per month for at least 100 hours of service per month. Mr Henry will also be reimbursed for reasonable expenses incurred in the performance of his duties as Managing Director of the Company.

The Henry Consultancy Agreement continues for a period of 2 years, with the option to extend the term by mutual written agreement of the parties. The Henry Consultancy Agreement contains standard termination provisions under which the Company must give 3 months' written notice of termination (or shorter period in the event of a material breach) or, alternatively, payment in lieu of service. At the end of that notice period the Company must pay to Trend Exploration Consultants LLC an amount equal to the consulting fee that would otherwise be payable to Trend Exploration Consultants LLC over a 3 month period if the engagement had not been terminated.



### 8.11 CONSULTANCY AGREEMENT – MR JOHN D. KENNY

The Company has entered into a consultancy agreement with VentureWorks JDK Pty Ltd (an entity associated with Mr John D. Kenny) and Mr John D. Kenny which commenced on 1 April 2014 (**Kenny Consultancy Agreement**).

Under the Kenny Consultancy Agreement, VentureWorks JDK Pty Ltd is engaged by the Company to provide services to the Company. Mr John D. Kenny will be a Non-Executive Director of the Company. VentureWorks JDK Pty Ltd will be paid a consulting fee of A\$13,000 (plus GST) per month for at least 60 hours of service per month. Mr Kenny will also be reimbursed for reasonable expenses incurred in the performance of his duties as a Non-Executive Director of the Company.

The Kenny Consultancy Agreement continues for a period of 2 years, with the option to extend the term by mutual written agreement of the parties. The Kenny Consultancy Agreement contains standard termination provisions under which the Company must give 3 months' written notice of termination (or shorter period in the event of a material breach) or, alternatively, payment in lieu of service. At the end of that notice period the Company must pay to VentureWorks JDK Pty Ltd an amount equal to the consulting fee that would otherwise be payable to VentureWorks JDK Pty Ltd over a 3 month period if the engagement had not been terminated.

### 8.12 CONSULTANCY AGREEMENT – MR HUGH IDSTEIN

The Company has entered into a consultancy agreement with Lugano Holdings LLC (an entity controlled by Hugh Idstein) and Mr Hugh Idstein which commenced on 1 April 2014 (**Idstein Agreement**).

Under the Idstein Consultancy Agreement, Lugano Holdings LLC is engaged by the Company to provide services to the Company. Mr Hugh Idstein will be the general manager of the Company's USA operations. Lugano Holdings LLC will be paid a consulting fee of A\$13,000 (plus GST) per month for at least 60 hours of service per month. Mr Idstein will also be reimbursed for reasonable expenses incurred in the performance of his duties as general manager of the Company's USA operations.

The Idstein Consultancy Agreement continues for a period of 2 years, with the option to extend the term by mutual written agreement of the parties. The Idstein Consultancy Agreement contains standard termination provisions under which the Company must give 3 months' written notice of termination (or shorter period in the event of a material breach) or, alternatively, payment in lieu of service. At the end of that notice period the Company must pay to Lugano Holdings LLC an amount equal to the consulting fee that would otherwise be payable to Lugano Holdings LLC over a 3 month period if the engagement had not been terminated.

### 8.13 CONSULTANCY AGREEMENT – MR NICHOLAS CALDER

The Company has entered into a consultancy agreement with NK Advisory & Investments Pty Ltd (an entity controlled by Nicholas Calder) and Mr Nicholas Calder which commenced on 1 April 2014 (**Calder Consultancy Agreement**).

Under the Calder Consultancy Agreement, NK Advisory & Investments Pty Ltd is engaged by the Company to provide services to the Company. Mr Nicholas Calder will be the Company Secretary of the Company. NK Advisory & Investments Pty Ltd will be paid a consulting fee of A\$12,000 (plus GST) per month for at least 80 hours of service per month. Mr Calder will also be reimbursed for reasonable expenses incurred in the performance of his duties as Company Secretary of the Company.

The Calder Consultancy Agreement continues for a period of two years, with the option to extend the term by mutual written agreement of the parties. The Calder Consultancy Agreement contains standard termination provisions under which the Company must give 3 months' written notice of termination (or shorter period in the event of a material breach) or, alternatively, payment in lieu of service. At the end of that notice period the Company must pay to NK Advisory & Investments Pty Ltd an amount equal to the consulting fee that would otherwise be payable to NK Advisory & Investments Pty Ltd over a 3 month period if the engagement had not been terminated.

## 9. Risk Factors

The Shares offered under this Prospectus are considered highly speculative. An investment in the Company is not risk free and the Directors strongly recommend that potential investors consider the risks factors described below, together with information contained elsewhere in this Prospectus, and to consult their professional advisers, before deciding whether to apply for Shares pursuant to this Prospectus.

The proposed future activities of the Company are subject to a number of risks and other factors which may impact its future performance. Some of these risks can be mitigated by the use of safeguards and appropriate controls. However, many of the risks are outside the control of the Company and cannot be mitigated.

Investors should be aware that the performance of the Company may be affected by these risk factors and the value of its Shares may rise or fall over any given period. Some of the factors which investors should consider before they make a decision whether or not to invest in the Company include, but are not limited to, the risks detailed in this Section 9.

### 9.1 RISKS SPECIFIC TO THE COMPANY

#### (a) Exploration and development risks

Oil and gas exploration is a high-risk enterprise, only occasionally providing high rewards. In addition to the normal competition for prospective ground, and the high average costs of discovery of an economic oil resource, factors such as demand for oil, stock market fluctuations affecting access to new capital, sovereign risk, environmental issues, labour disruption, financing difficulties, foreign currency fluctuations and technical problems all affect the ability of a company to profit from any oil or gas discovery.

There is no assurance that exploration and development of the oil and gas interests owned by the Company, or any other projects that may be acquired in the future, can be profitably exploited.

#### (b) Operational risks

The operations of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, fire, explosions and other incidents beyond the control of the Company.

These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. While the Company currently intends to maintain insurance within ranges of coverage consistent with oil industry practice, no assurance can be given that the Company will be able to obtain such insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

#### (c) Oil and gas estimates

Oil and gas estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when made may change significantly when new information becomes available. In addition, oil and gas estimates are necessarily imprecise and depend to some extent on interpretations, which may not prove to be accurate. Should the Company encounter formations different from those predicted by past drilling, sampling and similar examinations, resource estimates may have to be adjusted and drilling plans may have to be altered in a way which could adversely affect the Company's operations.

#### (d) Title

The Van Hoogen Oil Project Leases are located in Texas, USA. The legal regime regarding ownership of mineral and petroleum rights in the USA is materially different from that in Australia (refer to Section 1.7(a) for further details).

In the USA, it is customary that full title opinions for oil and gas leases are not rendered until a company proposes to conduct a drilling program or expend significant amounts of money on oil and gas leases. As the Company has adopted this approach, there is a possibility that third parties may hold or claim mineral rights adverse to the Company's interest in the Van Hoogen Oil Project Leases (assuming the Acquisition is completed).



Verifying the chain of title for USA oil and gas leases can involve some complexity requiring the engagement of oil and gas lease brokers or independent land men, who examine records and express opinions on adequacy of title. Despite these steps, a deficiency in title may be present which requires remedial steps to be taken or, in the case of serious title problems, may lead to loss of title and funds expended on the lease interest and expenditure made on operations prior to the discovery of the defect in title. The Company has undertaken due diligence to confirm the validity of the Van Hoogen Oil Project Leases (refer to the USA Lawyers' Report in Section 5). However, no due diligence process can completely eliminate all risks and therefore the Company faces the risk of not being able to secure valid access to the oil and gas lease rights which it seeks to acquire.

**(e) Equipment access**

High local, regional or global demand for oil and gas exploration and development equipment and infrastructure and experienced operators of this equipment may adversely affect the Company's operations. The Company may not always have access to experienced seismic crews, drill rigs, and operators and this may cause delays in the Company's exploration and development programs, which may result in increased costs in relation to the Company's projects.

**(f) Hydraulic fracturing**

Due to significant public debate surrounding the environmental impacts of hydraulic fracturing, the oil and gas industry is subject to substantial public and regulatory scrutiny and to rigorous environmental approval and monitoring processes. The implementation of future regulations or approval processes in the oil and gas industry may lead to additional costs or require changes to the way the Company proposes to operate or explore and, as a result, may have an adverse effect on the financial performance of the Company.

**(g) Commercialisation and infrastructure access**

The Company's potential future earnings, profitability and growth are likely to be dependent on the Company being able to commercialise any oil and gas reserves that may exist on the oil and gas leases in which the Company currently has an interest or that are acquired by the Company in the future. The ability of the Company to do so is further dependent on a number of factors, including matters which may be beyond the control of the Company.

Sales of oil and gas, if applicable, will be affected by the availability, terms and costs of transportation. The Company's ability to sell and market any oil and gas produced will be negatively affected should it be unable to secure adequate transportation and/or processing facilities. Further, access will depend on the proximity and capacity of pipelines and processing facilities. The Company may be required to develop its own pipeline infrastructure or secure access to third party pipeline infrastructure in order to deliver its product to customers and markets.

**(h) Oil and gas price volatility**

It is anticipated that any future revenues derived from drilling will primarily be derived from the sale of oil and gas. Consequently, any future earnings are likely to be closely related to the price of oil and gas. Oil and gas prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include world demand for oil and gas, forward selling by producers, and production cost levels in major oil and gas producing regions.

Moreover, oil and gas prices are also affected by macroeconomic factors such as expectations regarding inflation, interest rates and global and regional demand for, and supply of, the commodity as well as general global economic conditions. These factors may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities.

**(i) Competition**

The Company competes with other companies, including major oil and gas exploration and production companies. Some of these companies have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities. Many of the Company's competitors not only explore for and produce oil and gas but also carry out refining operations on a worldwide basis. There can be no assurance that the Company can compete effectively with these companies.

## 9. Risk Factors (cont.)

### (j) Environmental risks and regulations

The Company will be subject to environmental laws and regulations in connection with operations it may pursue in the oil and gas industry, which operations are currently in Texas, USA. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws. However, the Company may be the subject of accidents or unforeseen circumstances that could subject the Company to extensive liability.

Further, the Company may require approval from the relevant authorities before it can undertake activities that are likely to impact the environment. Failure to obtain such approvals will prevent the Company from undertaking its desired activities. The Company is unable to predict the effect of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations in any area.

As with all exploration projects and oil and gas operations, the Company's activities are expected to have an impact on the environment, particularly if oil and gas development proceeds. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with applicable laws.

The cost and complexity of complying with applicable environmental laws and regulations may prevent the Company from being able to develop potentially economically viable oil and gas resources.

Although the Company believes that it is in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other unforeseen circumstances, which could subject the Company to extensive liability.

Further, the Company may require approval from the relevant authorities before it can undertake activities that are likely to impact the environment. Failure to obtain such approvals will prevent the Company from undertaking its desired activities. The Company is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations in any area.

There can be no assurances that new environmental laws, regulations or stricter enforcement policies, once implemented, will not oblige the Company to incur significant expenses and undertake significant investments in such respect which could have a material adverse effect on the Company's business, financial condition and results of operations.

### (k) Contracts

The Company is a party to various contracts, including but not limited to those summarised in Section 8.

While the Company will have various contractual rights in the event of non-compliance by counterparties, no assurance can be given that all contracts to which the Company is a party will be fully performed by all counterparties. In addition, no assurance can be given that, if a counterparty does not comply with any contractual provisions, the Company will be successful in enforcing compliance. Non-compliance with a material contract by a counterparty may negatively impact the Company's ability to conduct its business.

### (l) Exchange rate fluctuation

The revenues, expenses, earnings, assets and liabilities of the Company, as well as the price of Shares, may be adversely affected by exchange rate fluctuations.

The majority of the Company's expenditure will be in US dollars. Any appreciation of the US dollar against the Australian dollar will effectively increase the Australian dollar cost of the Company's planned or required expenditure. Similarly, if the Company achieves commercial production, some or all of the Company's future revenues may also be derived from US dollar sales. Any appreciation of the Australian dollar against the US dollar will effectively reduce the Australian dollar value of such revenue.

The Company does not presently engage in currency hedging to offset any risk of currency fluctuations, but intends to hold the majority of funds raised under the Offer in a US dollar bank account in order to minimise the impact of exchange rate fluctuations on its expenditure.



**(m) Regulatory**

Changes in relevant taxes, legal and administration regimes, accounting practice and government policies in the USA or Australia may have a significant adverse influence on the outlook for and financial performance of the Company and returns to investors.

**(n) Insurance**

Insurance against all risks associated with oil and gas production is not always available or affordable. The Company will maintain insurance where it is considered appropriate for its needs. However, the Company will not be insured against all risks either because appropriate cover is not available or because the Directors consider the required premiums to be excessive having regard to the benefits that would accrue.

**(o) Additional requirements for capital**

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in the future. Any additional equity financing may dilute existing Shareholders' shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities or may only be available at excessively high interest rates. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and/or scale back its exploration programmes.

**(p) Potential acquisitions**

As part of its business strategy, the Company may make acquisitions of, or significant investments in, complementary companies or prospects, although no specific acquisitions or investments are currently planned. Any such transactions will be accompanied by risks commonly encountered in making such acquisitions.

**(q) Reliance on key personnel**

The Company is reliant on a number of key personnel and consultants, including members of the Board. The loss of one or more of these key contributors could have an adverse impact on the business of the Company.

It may be particularly difficult for the Company to attract and retain suitably qualified and experienced people given the current high demand in the industry and relatively small size of the Company as compared with other industry participants.

**(r) Limited operating history**

The Company has no history of earnings. The Company's continued operation will be dependent upon its ability to generate operating revenues and to procure additional financing as and when required.

## 9.2 GENERAL RISKS

**(a) Share investments and share market conditions**

Applicants should be aware that there are risks associated with any investment in securities. The prices at which the Shares trade may be above or below the issue price and may fluctuate in response to a number of factors, including those not under the control of the Company. Furthermore, the stock market, and in particular the market for oil exploration companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These factors may materially affect the market price of the Shares, regardless of the Company's operational performance. Neither the Company nor the Directors warrant the future performance of the Company or guarantee any return on an investment in the Company.

**(b) Liquidity risk**

The market for the Shares may be illiquid. As a consequence, investors may be unable to readily exit or realise their investment.

## 9. Risk Factors (cont.)

### (c) Economic risk

Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors that may contribute to that general economic climate include the level of direct and indirect competition against the Company, industrial disruption in USA, the rate of growth of Australian, the USA and global gross domestic product, and interest rates and the rate of inflation in Australia and the USA.

### (d) Global credit and investment markets

Global credit, commodity and investment markets have recently experienced a high degree of uncertainty and volatility. The factors which have led to this situation have been outside the control of the Company and may continue for some time resulting in continued volatility and uncertainty in world stock markets (including the ASX). This may impact the price at which the Shares trade regardless of the Company's operating performance, and may affect the Company's ability to raise additional equity and/or debt to achieve its objectives, if required.

### 9.3 INVESTMENT SPECULATIVE

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by prospective investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus. Consequently, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or market value. Prospective investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

# 10. Additional Information

## 10.1 TAXATION IMPLICATIONS

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All prospective investors in the Company are urged to take independent financial advice about the taxation and any other consequences of investing in the Company.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

## 10.2 LITIGATION

Legal proceedings may arise from time to time in the course of the Company's business. As at the date of this Prospectus, the Company is not involved in any legal proceedings nor, so far as the Directors are aware, are any legal proceedings pending or threatened against the Company the outcome of which will have a material adverse effect on the business or financial position of the Company.

## 10.3 DIRECTORS' INTERESTS

Other than as disclosed in this Prospectus, no Director, or any entity in which they are a partner or director, has, or has had in the two years before the date of this Prospectus, any interests in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Offer; or
- (c) the Offer, and

no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

- (d) any Director to induce him or her to become, or to qualify as, a Director; or
- (e) any Director for services which he or she (or an entity in which they are a partner or director) has provided in connection with the formation or promotion of the Company or the Offer.

## 10.4 DIRECTORS' HOLDINGS

The Directors are not required to hold any Securities under the Constitution.

The Directors have the following relevant interests in Securities as at the date of this Prospectus:

Director	Shares	Options	Class A Convertible Milestone Notes	Class B Convertible Milestone Notes	Class C Convertible Milestone Notes
Peter Allchurch <sup>A</sup>	6,640,001	3,440,000	1,935	3,870	5,805
Neville Henry <sup>B</sup>	4,190,001	3,440,000	1,935	3,870	5,805
James Hodges	900,000	Nil	Nil	Nil	Nil
John D. Kenny <sup>C</sup>	6,080,001	2,880,000	1,620	3,240	4,860

### Notes:

- A The registered legal owner of all these Securities is Azuree Pty Ltd, a company associated with Mr Peter Allchurch.
- B Trend E&P LLC, Patricia Henry, Cassandra Henry, William Henry and Daniel Roca are all parties associated with Mr Neville Henry.
- C The registered legal owner of all these Securities is JKD Nominees Pty Ltd atf The Kenny Capital Trust, an entity associated with Mr John D. Kenny.

## 10. Additional Information (cont.)

As detailed in Section 1.4, the Company, CEP and each of the Vendors are parties to the CEP Purchase Agreement.

Mr Peter Allchurch is a Vendor under the CEP Purchase Agreement, and Mr Neville Henry and Mr John D. Kenny are associated with certain Vendors. Pursuant to the Acquisition, these Directors (or their associates) will receive a relevant interest in the following Vendor Securities:

Director	Shares	Options	Class A Convertible Milestone Notes	Class B Convertible Milestone Notes	Class C Convertible Milestone Notes
Peter Allchurch <sup>A</sup>	2,319,868	636,828	46	92	138
Neville Henry <sup>B</sup>	1,230,406	337,759	24	48	72
John D. Kenny <sup>C</sup>	2,319,868	636,828	46	92	138

### Notes:

- A Mr Peter Allchurch will receive these Vendor Securities in his own name.
- B Trend E&P LLC, a company associated with Mr Neville Henry, will receive these Vendor Securities.
- C JDK Nominees Pty Ltd atf The Kenny Capital Trust, an entity associated with Mr John D. Kenny, will receive these Vendor Securities.

Accordingly, on completion of the Acquisition the Directors will have the following relevant interests in Securities:

Director	Shares	Options	Class A Convertible Milestone Notes	Class B Convertible Milestone Notes	Class C Convertible Milestone Notes
Peter Allchurch	8,959,869	4,076,828	1,981	3,962	5,943
Neville Henry	5,420,407	3,777,759	1,959	3,918	5,877
James Hodges	900,000	Nil	Nil	Nil	Nil
John D. Kenny	8,399,869	3,516,828	1,666	3,332	4,998

### 10.5 DIRECTORS PARTICIPATION IN THE OFFER

The Directors may participate in the Offer. At the date of this Prospectus, each Director has indicated that their (or their associates) participation in the Offer (if any) will not exceed A\$250,000 (or 1,250,000 Shares) per Director. Accordingly, the aggregate participation of the Directors (and their associates) in the Offer will not exceed A\$1,000,000 (being 5,000,000 Shares).

### 10.6 REMUNERATION OF DIRECTORS

The Constitution provides that the Directors will be paid by way of remuneration for their services as Directors a sum not exceeding such fixed sum per annum as may be determined by the Directors prior to the first annual general meeting of the Company or pursuant to a resolution passed at a general meeting of the Company (subject to complying with the Corporations Act and the Listing Rules, as applicable). The Directors have not yet determined a maximum remuneration sum.

At the General Meeting, approval will be sought from Shareholders to set the maximum aggregate remuneration payable to Directors at A\$1,000,000 per annum.

The fees paid to Mr Peter Allchurch (Non-Executive Chairman), Mr Neville Henry (Managing Director) and Mr John D. Kenny (Non-Executive Director) in the 24 months prior to the lodgement of this Prospectus have been paid in accordance with the terms of the consulting agreements entered into by the Company with entities associated with each of them, the terms of which are as detailed in Sections 8.9, 8.10 and 8.11.



The total remuneration paid or owed by the Company to each of the Directors in the 24 months prior to the lodgement of this Prospectus is as follows:

Director	Consulting Fees (inc. GST) (A\$)	Directors' Fees (A\$)	Total (A\$)
Peter Allchurch	\$57,200	Nil	\$57,200
Neville Henry	\$100,000	Nil	\$100,000
James Hodges	Nil	\$24,000	\$24,000
John D. Kenny	\$57,200	Nil	\$57,200
<b>Total</b>	<b>\$214,400</b>	<b>\$24,000</b>	<b>\$238,400</b>

Each of the Directors will be entitled to the following remuneration over the 12 month period commencing on 1 April 2014:

Director	Consulting Fees (inc. GST) (A\$)	Directors' Fees (A\$)	Total (A\$)
Peter Allchurch	\$171,600	Nil	\$171,600
Neville Henry	\$300,000	Nil	\$300,000
James Hodges	Nil	\$72,000	\$72,000
John D. Kenny	\$171,600	Nil	\$171,600
<b>Total</b>	<b>\$643,200</b>	<b>\$72,000</b>	<b>\$715,200</b>

Where a Director performs duties or provides services other than acting as a Director he or she may be paid fees or other amounts as the Directors determine. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

The Company is to enter into deeds of indemnity, insurance and access with each of its Directors and the Company Secretary, subject to Shareholder approval at the General Meeting. The material terms of the Deeds are summarised in Section 8.7.

## 10.7 EXPENSES OF THE OFFER

The total expenses of the Offer payable by the Company are comprised as follows:

Expenses of the Offer	Minimum Subscription A\$10,000,000 (A\$)	Subscription of A\$15,000,000 (A\$)	Maximum Subscription A\$20,000,000 (A\$)
Independent Technical Expert's Report	\$25,000	\$25,000	\$25,000
Investigating Accountant's Report	\$15,000	\$15,000	\$15,000
USA Lawyers' Report	\$25,000	\$25,000	\$25,000
Australian legal fees	\$80,000	\$80,000	\$80,000
Printing and postage	\$10,000	\$10,000	\$10,000
ASX and ASIC Fees	\$84,061	\$88,786	\$93,511
Joint Lead Managers' Fees <sup>A</sup>	\$600,000	\$900,000	\$1,200,000
<b>Total</b>	<b>\$839,061</b>	<b>\$1,143,786</b>	<b>\$1,448,511</b>

## 10. Additional Information (cont.)

### Notes:

- A. Refer to Section 8.5. Note also that the Company reserves the right to pay a commission of up to 6% (exclusive of GST) of amounts subscribed through any Australian financial services licensee in respect of any valid Applications lodged and accepted by the Company and bearing the stamp of the Australian financial services licensee. Payment will be made subject to the receipt of a proper tax invoice from the Australian financial services licensee. Refer to Section 3.19 for details.

### 10.8 CHINA LEADER GROUP LIMITED, ESPB INVESTMENTS INC. AND MR YANG XIANGYANG

As of the date of this Prospectus, CLGL owns 13,333,333 Shares in the Company, which equates to 23.63% of the Shares on issue (and 23.63% of the voting power in the Company). Pursuant to the Acquisition, ESPB (as a Vendor) will receive the following Vendor Securities:

- (a) 16,859,504 Shares;
- (b) 4,628,099 Options;
- (c) 330 Class A Convertible Milestone Notes;
- (d) 660 Class B Convertible Milestone Notes; and
- (e) 990 Class C Convertible Milestone Notes.

CLGL has also provided a binding firm commitment to the Company that it will apply for 25,000,000 Shares under the Offer.

Both CLGL and ESPB are companies ultimately controlled by Mr Yang Xiangyang. Mr Yang Xiangyang is Chairman of Shenzhen Resources Investment & Development Co. Ltd, President of Shenzhen Yuanxing Biopharmaceutical Co Ltd and a professional venture capitalist. Mr Yang Xiangyang holds B.S. and M.S. degrees in Applied Mathematics from Tsinghua University. Mr Yang Xiangyang has successively founded, participated and invested in more than 10 high technology companies in the biopharmaceutical, healthcare and information technology sectors, including Sibiono, the inventor of the world's first marketable gene therapy drug, and Hepalink, the largest supplier of Heparin Sodium API in the world.

As a result of the above matters, following completion of the Acquisition and the Offer CLGL and ESPB together will hold Shares and voting power in the Company (and, accordingly, Mr Yang Xiangyang will hold a relevant interest in Shares and voting power in the Company) as follows:

	Total Shares on issue	Total Shares held by CLGL and ESPB	Total voting power of CLGL and ESPB
Existing as at the date of this Prospectus	56,416,672	13,333,333	23.63%
Following completion of the Acquisition <sup>A</sup>	107,416,672	30,192,837 <sup>A</sup>	28.11%
Following completion of the Acquisition and the Offer	190,416,672 <sup>B</sup>	55,192,837 <sup>C</sup>	28.98% <sup>B</sup>
Following completion of the Acquisition and the Offer, exercise of all Options and conversion of all Convertible Milestone Notes	280,416,672 <sup>D</sup>	61,800,936 <sup>E</sup>	22.03%

### Notes:

- A A total of 51,000,000 Shares will be issued to Vendors at completion of the Acquisition, of which 16,859,504 Shares will be issued to ESPB.
- B Assumes a total subscription under the Offer of 75,000,000 Shares (for a total capital raising of \$15,000,000) and the issue of 8,000,000 Shares to consultants, brokers and the Joint Lead Managers. However if there is a total subscription under the Offer of:
- (i) 50,000,000 Shares (the Minimum Subscription), CLGL and ESPB together will have total voting power in the Company of 33.36%; and
  - (ii) 100,000,000 Shares (the maximum number of Shares to be issued under the Offer), CLGL and ESPB together will have a total voting power in the Company of 25.62%,
- following completion of the Acquisition and the Offer (but assuming no exercise of any Options or conversion of any Convertible Milestone Notes).



- C Assumes that the Company issues 25,000,000 Shares under the Offer, in accordance with CLGL's binding firm commitment to apply for such Shares.
- D Assumes a total subscription under the Offer of 75,000,000 Shares, and:
  - (a) the exercise of all 30,000,000 Options on issue following completion of the Acquisition;
  - (b) the conversion of all 10,000 Class A Convertible Milestone Notes on issue following completion of the Acquisition;
  - (c) the conversion of all 20,000 Class B Convertible Milestone Notes on issue following completion of the Acquisition; and
  - (d) the conversion of all 30,000 Class C Convertible Milestone Notes on issue following completion of the Acquisition.
- E Assumes a total subscription under the Offer of 75,000,000 Shares, and:
  - (a) the exercise of all 4,628,099 Options held by ESPB following completion of the Acquisition;
  - (b) the conversion of all 330 Class A Convertible Milestone Notes held by ESPB following completion of the Acquisition into 330,000 Shares;
  - (c) the conversion of all 660 Class B Convertible Milestone Notes held by ESPB following completion of the Acquisition into 660,000 Shares; and
  - (d) the conversion of all 990 Class C Convertible Milestone Notes held by ESPB following completion of the Acquisition into 990,000 Shares.

## 10.9 SUBSTANTIAL SHAREHOLDERS

As at the date of this Prospectus, the existing substantial Shareholders of the Company (being those Shareholders holding more than 5% of the total number of Shares on issue) are as follows:

Holder	Shares	Percentage of total Shares on issue
China Leader Group Limited <sup>A</sup>	13,333,333	23.63%
Azuree Pty Ltd <sup>B</sup>	6,640,001	11.77%
JDK Nominees Pty Ltd atf the Kenny Capital Trust <sup>C</sup>	6,080,001	10.77%
Eaglewood Energy LLC	5,440,001	9.64%
Trend E&P LLC <sup>D</sup>	4,190,001	7.42%
Lugano Holdings LLC	3,400,001	6.02%
<b>Total Number of Shares</b>	<b>56,416,672</b>	<b>69.25%</b>

### Notes:

- A. China Leader Group Limited is a company associated with Mr Yang Xiangyang.
- B. Azuree Pty Ltd is a company associated with Mr Peter Allchurch.
- C. JDK Nominees Pty Ltd atf The Kenny Capital Trust is an entity associated with Mr John D. Kenny.
- D. Trend E&P LLC (3,440,001 Shares), Patricia Henry (300,000 Shares), Cassandra Henry (150,000 Shares), William Henry (150,000 Shares) and Daniel Roca (150,000 Shares) are all parties associated with Mr Neville Henry.

Based on information known at the date of this Prospectus, following completion of the Acquisition and the Offer (assuming that A\$15,000,000 is raised by way of the Offer), the substantial Shareholders of the Company (being those Shareholders holding more than 5% of the total number of Shares on issue) will be as follows:

Holder	Shares	Percentage of total Shares on issue
China Leader Group Limited and ESPB Investments Inc. (both companies associated with Mr Yang Xiangyang)	55,192,837 <sup>A</sup>	28.98% <sup>A</sup>

### Notes:

- A. Assumes that no Options or Convertible Milestone Notes are exercised or converted prior to completion of the Acquisition and the Offer and accordingly there are 190,416,672 Shares in total on issue. If the A\$10,000,000 is raised under the Offer (being the Minimum Subscription) CLGL and ESPB together will hold 33.36% of the total Shares on issue.

The Company will announce to the ASX details of its top 20 Shareholders (following completion of the Offer and the Acquisition) prior to the Shares commencing trading on ASX.

## 10. Additional Information (cont.)

### 10.10 INTERESTS OF PROMOTERS, EXPERTS AND ADVISORS

Except as disclosed in this Prospectus, no promoter or other person named in this Prospectus that has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus holds, or in the past two years has held, any interest in:

- (a) the formation or promotion of the Company, the Offer or property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or the Offer; or
- (b) has been paid or given or will be paid or given any amount or benefit in connection with the formation or promotion of the Company or the Offer.

Ralph E Davis Associates, Inc. has prepared the Independent Technical Expert's Report included in Section 4. The Company has paid or will pay US\$23,000 (equivalent to approximately A\$25,000) for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, Ralph E. Davis Associates, Inc. has not received fees from the Company for any other services.

BDO Corporate Finance (WA) Pty Ltd has prepared the Investigating Accountant's Report included in Section 6. The Company has paid or will pay approximately A\$15,000 to BDO Corporate Finance (WA) Pty Ltd for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, BDO Corporate Finance (WA) Pty Ltd received fees of \$32,500 from the Company for other services.

BDO are also the auditors of the Company and are paid for these services on standard industry terms and conditions. As at the date of this Prospectus, BDO have not been paid nor have they accrued any fees in relation to these services. During the 24 months preceding lodgement of this Prospectus with ASIC, BDO has not received fees from the Company for any other services.

Automic Registry Services (Automic) has been appointed to conduct the Company's share registry functions and to provide administrative services in respect to the processing of Applications received pursuant to this Prospectus. Automic is paid for these services on standard industry terms and conditions. During the 24 months preceding lodgement of this Prospectus with ASIC, Automic has not received fees from the Company for any other services.

Looper Ballew has prepared the USA Lawyers' Report included in Section 5. The Company has paid or will pay approximately US\$23,000 (equivalent to approximately A\$25,000) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with ASIC, Looper Ballew has received fees from the Company totalling to US\$50,000 (equivalent to approximately A\$53,000) for the provision of legal services on other Company matters.

The Joint Lead Managers will be paid the fees described in Section 8.5 for performing lead management services in respect of the Offer. During the 24 months preceding lodgement of this Prospectus with ASIC, none of the Joint Lead Managers have received fees from the Company for any other services.

CPS is one of the Joint Lead Managers to the Offer. Mr Jason Peterson is a director of and shareholder in CPS. As at the date of this Prospectus, Jason Peterson owns 2,666,666 Shares. Mr Peterson is also a Vendor and will receive 1,264,463 Shares, 347,107 Options, 25 Class A Convertible Milestone Notes, 50 Class B Convertible Milestone Notes and 75 Class C Convertible Milestone Notes in respect to the Acquisition.

Chatsworth Stirling is a consultant to the Company. Chatsworth Stirling will be paid the fees described in Section 8.6 for performing services to the Company. Mr John D. Kenny is the sole director of Chatsworth Stirling and is a Non-Executive Director of the Company. JDK Nominees Pty Ltd atf The Kenny Capital Trust, an entity associated with Mr John D. Kenny, is the sole shareholder of Chatsworth Stirling. During the 24 months preceding lodgement of this Prospectus with ASIC, Chatsworth Stirling has not received fees from the Company for any other services.

The amounts disclosed above are exclusive of any amount of GST payable by the Company in respect of those amounts.



## 10.11 RELATED PARTY TRANSACTIONS

At the date of this Prospectus, no material transactions with related parties and/or Directors exist that the Directors are aware of, other than those disclosed in this Prospectus.

The Company's policy in respect of related party arrangements is:

- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

## 10.12 CONSENTS

Each of the parties referred to in this Section:

- (a) has not made any statement in this Prospectus or any statement on which a statement in this Prospectus is based, other than specified below;
- (b) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Prospectus, other than the references to its name and the statement(s) and/or report(s) (if any) specified below and included in this Prospectus with the consent of that party; and
- (c) has given and has not, before the date of lodgement of this Prospectus, with ASIC, withdrawn its written consent:
  - (i) to be named in this Prospectus in the form and context which it is named; and
  - (ii) to the inclusion in this Prospectus of the statement(s) and/or report(s) (if any) by that person in the form and context in which it appears in this Prospectus.

Name	Role	Statement/Report
Ralph E Davis Associates, Inc.	Independent Technical Expert	Independent Technical Expert's Report in Section 4 and any other references to it in this Prospectus.
Mr Neville Henry	Competent Person	Competent Person's Statement
BDO Corporate Finance (WA) Pty Ltd	Investigating Accountant	Investigating Accountant's Report in Section 6 and any other references to it in this Prospectus.
Looper Ballew	USA Lawyers	USA Lawyers' Report in Section 5 and any other references to it in this Prospectus.
Automic Registry Services	Share Registry	Nil
CPS Capital Group Pty Ltd	Joint Lead Manager	Nil
Patersons Securities Limited	Joint Lead Manager	Nil
Chatsworth Stirling Pty Ltd	Consultant	Nil

None of the parties referred to above in this Section 10.12 authorised or caused the issue of this Prospectus or the making of the Offer.

Each of the Directors has given their written consent to being named in this Prospectus in the context in which they are named and have not withdrawn their consent prior to lodgement of this Prospectus with ASIC.

## 10. Additional Information (cont.)

### 10.13 ELECTRONIC PROSPECTUS

Pursuant to Class Order 00/44, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with ASIC and the issue of Shares in response to an electronic Application Form, subject to compliance with certain provisions. If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company and the Company will send to you, for free, either a hard copy or a further electronic copy of this Prospectus or both.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application Monies received will be dealt with in accordance with section 722 of the Corporations Act.

### 10.14 DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection during normal business hours at the registered office of the Company:

- (a) this Prospectus;
- (b) the Constitution; and
- (c) the consents referred to in Section 10.12.

### 10.15 CONTINUOUS DISCLOSURE OBLIGATIONS

Following admission of the Company to the Official List, the Company will be a "disclosing entity" (as defined in Section 111AC of the Corporations Act) and, as such, will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company will be required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Shares (unless a relevant exception to disclosure applies). Price sensitive information will be publicly released through ASX before it is otherwise disclosed to Shareholders and market participants. Distribution of other information to Shareholders and market participants will also be managed through disclosure to ASX. In addition, the Company will post this information on its website after ASX confirms that an announcement has been made, with the aim of making the information readily accessible to the widest audience.

### 10.16 SECURED LOANS MADE BY 2 DIRECTORS

Haifa Pty Ltd a company associated with Mr Peter Allchurch has loaned the Company A\$200,000 for working capital purposes. This loan bears no interest but is secured against the Company's assets. It is repayable on demand from Haifa Pty Ltd. JDK Nominees Pty Ltd atf the Kenny Capital Trust is an entity associated with Mr John D. Kenny and that entity has also loaned the Company A\$200,000 for working capital purposes. This loan also bears no interest and likewise is secured against the Company's assets. It is also repayable on demand from JDK Nominees Pty Ltd atf the Kenny Capital Trust. Following completion of the Acquisition and the Offer the Company intends for these loans to be repaid. See Section 3.6 for further details of the Company's use of funds from the Offer.

# 11. Rights Attaching to Securities



## 11.1 RIGHTS ATTACHING TO SHARES

A summary of the rights attaching to Shares is detailed below. This summary is qualified by the full terms of the Constitution (a full copy of the Constitution is available from the Company on request free of charge) and does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of Shareholders. These rights and liabilities can involve complex questions of law arising from an interaction of the Constitution with statutory and common law requirements. For a Shareholder to obtain a definitive assessment of the rights and liabilities which attach to Shares in any specific circumstances, the Shareholder should seek legal advice.

The Shares to be issued under this Prospectus will rank equally with the existing Shares.

### (a) Voting rights

Subject to the Constitution of the Company and any rights or restrictions attached to a class of shares, at a general meeting of the Company every Shareholder present in person, or by proxy, attorney or representative has one vote on a show of hands, and upon a poll, one vote for each Share held by the Shareholder and for each partly paid Share held, a fraction of one vote equal to the proportion which the amount paid up bears to the amounts paid or payable on that Share. In the case of an equality of votes, the chairperson has a casting vote.

### (b) Dividends

Subject to the Corporations Act, the Listing Rules and any rights or restrictions attached to a class of shares, the Company may pay dividends as the Directors resolve but only out of profits of the Company. The Directors may determine the method and time for payment of the dividend.

### (c) Winding up

Subject to the Corporations Act, the Listing Rules and any rights or restrictions attached to a class of shares, on a winding up of the Company any surplus must be divided among the Shareholders of the Company in proportion which the amount paid on the Shares bears to the total amount paid and payable on the Shares of all Shareholders of the Company.

### (d) Transfer of Shares

Generally, Shares are freely transferable, subject to satisfying the requirements of the Listing Rules, the Corporations Act and associated legislation. The Directors may decline to register any transfer of Shares but only where permitted to do so by the Corporations Act, the Listing Rules and associated legislation.

### (e) Further increases in capital

Subject to the Corporations Act, the Listing Rules and associated legislation, the Company (under the control of the Directors) may allot and issue shares and grant options over Shares, on any terms, at any time and for any consideration, as the Directors resolve.

### (f) Variation of rights attaching to Shares

Subject to the Corporations Act, the Listing Rules and any rights or restrictions attached to a class of shares, the Company may vary or cancel rights attached to shares in that class by either special resolution passed at a general meeting of the holders of the shares in that class, or with the written consent of the holders of at least 75% of the votes in that class.

### (g) General meeting

Each Shareholder will be entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive notices, accounts and other documents required to be furnished to Shareholders under the Constitution, the Corporations Act and the Listing Rules.

# 11. Rights Attaching to Securities (cont.)

## 11.2 TERMS AND CONDITIONS OF OPTIONS

**(a) Exercise Price**

The exercise price of each Option is A\$0.25 (**Exercise Price**).

**(b) Expiry Date**

Each Option will expire at 5.00pm WST on 30 April 2019 (**Expiry Date**).

**(c) Exercise Period**

The Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

**(d) Exercise of Options**

The Options may only be exercised during the Exercise Period.

**(e) No Official Quotation of Options**

The Company will not apply for official quotation of the Options.

**(f) Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of each Option.

**(g) Notice of Exercise**

The Options may be exercised by giving written notice to the Company at any time during the Exercise Period. The notice (**Exercise Notice**) must:

- (i) specify the number of Options being exercised and the number of Shares to be issued;
- (ii) specify whether the Shares are to be issued to the holder of the Options or a nominee; and
- (iii) be accompanied by payment of the Exercise Price for each Option being exercised.

Any Notice of Exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt.

**(h) Shares Issued on Exercise**

Shares issued on exercise of the Options rank equally with the then Shares currently on issue.

**(i) Official Quotation of Shares on Exercise**

Application will be made by the Company to the ASX for official quotation of the Shares issued upon the exercise of the Options.

**(j) Timing of issue of Shares**

- (i) Within 3 Business Days after the receipt of a Notice of Exercise given in accordance with these terms and conditions and payment of the Exercise Price for each Option being exercised, the Company will allot and issue the Shares pursuant to the exercise of the Options and will (subject to paragraph (ii) below), at the same time, issue a cleansing notice under section 708A(5) of the Corporations Act.
- (ii) If the Company is not then permitted to issue a cleansing notice under section 708A(5) of the Corporations Act, the Company must either:
  - (A) issue a prospectus on the date that the Shares are issued under paragraph (i) above (in which case the date for issuing those Shares may be extended to not more than 10 Business Days after the receipt of the Notice of Exercise, to allow the Company time to prepare that prospectus); or



- (B) issue a prospectus before the date that the Shares are issued under paragraph (i) above, provided that offers under that prospectus must still be open for acceptance on the date those Shares are issued,

in accordance with the requirements of section 708A(11) of the Corporations Act.

**(k) Participation in New Issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options.

However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least ten business days after the issue is announced. This will give the holders of Options the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

**(l) Adjustment for bonus issues of Shares**

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

- (i) the number of Shares which must be issued on the exercise of an Option will be increased by the number of Shares which the Optionholder would have received if the Optionholder had exercised the Option before the record date for the bonus issue; and
- (ii) no change will be made to the Exercise Price.

**(m) Adjustment for Rights Issue**

If the Company makes an issue of Shares pro rata to existing Shareholders (except a bonus issue) the Exercise Price of an Option will be reduced according to the following formula:

$$\text{New exercise price} = O - \frac{E [P - (S + D)]}{N + 1}$$

- O = the old Exercise Price of the Option.
- E = the number of underlying Shares into which one Option is exercisable.
- P = average market price (as defined in the ASX Listing Rules) per Share weighted by reference to volume of the underlying Shares during the 5 trading days ending on the day before the ex rights date or ex entitlements date.
- S = the subscription price of a Share under the pro rata issue.
- D = the dividend due but not yet paid on the existing underlying Shares (except those to be issued under the pro rata issue).
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new share.

**(n) Adjustments for Reorganisation**

If there is any reorganisation of the issued share capital of the Company, the rights of the Optionholders will, be varied to the extent necessary to comply with the ASX Listing Rules which apply to the reorganisation at the time of the reorganisation.

**(o) Options Transferable**

The Options are transferable provided that the transfer of Options complies with section 707(3) of the Corporations Act.

**(p) Lodgement Instructions**

Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable". The application for Shares on exercise of the Options with the appropriate remittance should be lodged at the Company's share registry.

# 11. Rights Attaching to Securities (cont.)

## 11.3 TERMS AND CONDITIONS OF CLASS A CONVERTIBLE MILESTONE NOTES

### (a) Par Value of each Class A Convertible Milestone Note

Each Class A Convertible Milestone Note is issued by the Company to the Noteholder at the issue price of A\$0.10. This constitutes an unsecured debt owed by the Company to the Noteholder.

### (b) Interest Rate

Each Class A Convertible Milestone Note is issued by the Company on an interest free basis.

### (c) Security

Each Class A Convertible Milestone Note is issued by the Company on an unsecured basis.

### (d) Term

Each Class A Convertible Milestone Note is issued by the Company with a term which expires on 30 April 2019 (**Term**).

### (e) Milestone

Each Class A Convertible Milestone Note shall automatically convert to 1,000 fully paid ordinary shares in the Company upon the Company announcing to ASX that during the Term the Company has attained average daily production (net to the Company) of 500 barrels of oil equivalent (boe) per day for a period of 60 days (as determined by an independent petroleum reservoir engineer) from oil and gas leases located within Nolan County, Texas, USA in which a working interest is:

- (i) held by the Company on the date of issue of the Class A Convertible Milestone Notes, or subsequently acquired by the Company, in either case pursuant to:
  - (A) the deed of assignment between the Company and Carina Energy Partners LLC dated 30 April 2014 in respect of the Thomas 119-1H well; or
  - (B) the purchase agreement dated 24 June 2014 entered into by the Company to acquire the entire issued share capital of CEP Nolan Partners Inc.; or
- (ii) acquired by the Company in connection with the Company's analysis of proprietary geological, geotechnical and geophysical intellectual property owned by the Company as at the date of issue of the Class A Convertible Milestone Notes,

(being the **Class A Milestone**).

### (f) Conversion Price

Upon the automatic conversion of each Class A Convertible Milestone Note in the event that the Class A Milestone is attained during the Term each of the 1,000 fully paid ordinary shares shall be issued at A\$0.0001 per fully paid ordinary share in satisfaction of the unsecured debt owed by the Company to the Noteholder.

### (g) Written Notice

The Company will provide written notice to all Class A Convertible Milestone Noteholders if the Class A Milestone is satisfied (including the date of satisfaction). The Company will, at its sole cost, determine at least once every twelve (12) months from the date of issue of the Class A Convertible Milestone Notes, whether the Class A Milestone has been attained and will commission a report from an independent petroleum reservoir engineer for this purpose.

### (h) Prohibition in section 606 of the Corporations Act

A Class A Convertible Milestone Note which has attained the Class A Milestone during the Term, cannot be converted into fully paid ordinary shares if the conversion would result in the Noteholder (or someone else) breaching the prohibition set out in section



606 of the Corporations Act. If a Noteholder advises the Company in writing that the prohibition set out in section 606 of the Corporations Act applies to the Noteholder, then the Company shall as soon as is practicable call a meeting of the Company's shareholders in order to obtain approval for the purposes of item 7 of section 611 of the Corporations Act for the conversion to occur. Should shareholder approval not be obtained then the Company shall pay to the Noteholder within 28 days a sum of cash equal to the total number of fully paid ordinary shares that the Noteholder would have otherwise received had shareholder approval been obtained multiplied by the volume weighted average share price of the Company in the twenty (20) trading days preceding the date of satisfaction of the Class A Milestone.

**(i) No Quotation**

The Class A Convertible Milestone Notes will not be quoted on the ASX.

**(j) Certificate**

A certificate will be issued for the Class A Convertible Milestone Notes.

**(k) Transferability**

The Class A Convertible Milestone Notes are not transferrable.

**(l) Pari Passu**

Upon the automatic conversion of each Class A Convertible Milestone Note in the event that the Class A Milestone is attained during the Term the fully paid ordinary shares into which the Class A Convertible Milestone Notes will convert will rank pari passu in all respect with existing fully paid ordinary shares of the Company.

**(m) Application for Quotation**

The Company must make an application to the ASX for the quotation of the fully paid ordinary shares issued on the automatic conversion of the Class A Convertible Milestone Notes in the event that the Class A Milestone is attained during the Term and will make such application within 7 days of the conversion occurring. The Company will not be under any obligation to ensure that such fully paid ordinary shares will be quoted on ASX.

**(n) Reorganisation of Capital**

In the event of a reorganisation or reconstruction (including but not limited to consolidation, subdivision, reduction or return) of the issued capital of the Company, the Class A Convertible Milestone Notes will be reorganised in accordance with the ASX Listing Rules and in any case in a manner which will not result in any benefits being conferred on Noteholders which are not conferred on other shareholders of the Company and for such purpose the Company may vary the number, conversion price or other terms of the Class A Convertible Milestone Notes in such manner as may be necessary to comply with the ASX Listing Rules.

**(o) Adjustment for Bonus Issue**

The number of fully paid ordinary shares to be issued pursuant to the automatic conversion of the Class A Convertible Milestone Notes in the event that the Class A Milestone is attained during the Term will be adjusted for bonus issues made prior to any conversion of the Class A Convertible Milestone Notes so that upon any automatic conversion of the Class A Convertible Milestone Notes, the number of fully paid ordinary shares received by the Class A Convertible Milestone Noteholder will include the number of bonus fully paid ordinary shares that would have been issued if the Class A Convertible Milestone Notes had been converted prior to the record date for the bonus issues. The conversion price of the Class A Convertible Milestone Notes shall not change as a result of any such bonus issues.

**(p) No participation in Entitlements and Bonus Issues**

Holders of Class A Convertible Milestone Notes shall not be entitled to participate in new issues of capital offered to holders of fully paid ordinary shares such as bonus issues and entitlement issues until the Class A Convertible Milestone Notes are converted into fully paid ordinary shares.

## 11. Rights Attaching to Securities (cont.)

### (q) Nominee

Fully paid ordinary shares that are issued as a result of the conversion of Class A Convertible Milestone Notes may be held in the name of the Class A Convertible Milestone Noteholder's nominee.

### (r) Conversion on Change of Control or Sale

If:

- (i) a person or their associates is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 40% or more of the total voting power represented by the Company's then outstanding voting securities; or
- (ii) the Company sells or disposes of more than 75% of its holding in the oil and gas leases located within Nolan County, Texas, USA, in which the Company has a working interest,

then the Class A Milestone shall be automatically deemed to have been attained and the Class A Convertible Milestone Notes shall automatically convert into fully paid ordinary shares in accordance with these terms, provided however that:

- (iii) each Class A Convertible Milestone Note will only convert into such number of fully paid ordinary shares as is determined by the following formula:

$$S = (P / 500) \times 1,000$$

where:

S = Total number of fully paid ordinary shares into which each Class A Convertible Milestone Note will convert, provided that if "S" is greater than 1,000 then it will be rounded down to 1,000; and

P = Average daily production (net to the Company) of barrels of oil equivalent (boe) per day attained by the Company and as determined by an independent petroleum reservoir engineer; and

- (iv) if the total number of fully paid ordinary shares into which the Class A Convertible Milestone Notes and any other convertible milestone notes on issue by the Company (**Other Convertible Milestone Notes**) will, in aggregate, convert upon any application of this clause (r) and any analogous clause in respect of Other Convertible Milestone Notes will amount to more than 10% of the issued ordinary capital of the Company at the date of conversion, then the number of fully paid ordinary shares into which each Class A Convertible Milestone Note will convert upon application of this clause (r) will reduce pro rata such that the total number of fully paid ordinary shares into which the Class A Convertible Milestone Notes and Other Convertible Milestone Notes will convert will not exceed 10% of the issued ordinary capital of the Company at the date of conversion.

### (s) Issue of Fully Paid Ordinary Shares upon Conversion

Fully paid ordinary shares issued pursuant to the conversion of the Class A Convertible Milestone Notes under these terms will be issued by the Company within 10 business days along with a holding statement for these fully paid ordinary shares.

### (t) Debt Payable if Class A Milestone not Achieved

If the Class A Milestone is not achieved during the Term, then the Company shall pay the unsecured debt in cash to the Noteholder within seven (7) days.

## 11.4 TERMS AND CONDITIONS OF CLASS B CONVERTIBLE MILESTONE NOTES

### (a) Par Value of each Class B Convertible Milestone Note

Each Class B Convertible Milestone Note is issued by the Company to the Noteholder at the issue price of A\$0.10. This constitutes an unsecured debt owed by the Company to the Noteholder.

### (b) Interest Rate

Each Class B Convertible Milestone Note is issued by the Company on an interest free basis.



**(c) Security**

Each Class B Convertible Milestone Note is issued by the Company on an unsecured basis.

**(d) Term**

Each Class B Convertible Milestone Note is issued by the Company with a term which expires on 30 April 2019 (**Term**).

**(e) Milestone**

Each Class B Convertible Milestone Note shall automatically convert to 1,000 fully paid ordinary shares in the Company upon the Company announcing to ASX that during the Term the Company has attained 2P Reserves (net to the Company) of 5,000,000 barrels of oil equivalent (boe) (as determined by an independent petroleum reservoir engineer) from oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA in which a working interest is:

- (i) held by the Company on the date of issue of the Class B Convertible Milestone Notes, or subsequently acquired by the Company, in either case pursuant to:
  - (A) the deed of assignment between the Company and Carina Energy Partners LLC dated 30 April 2014 in respect of the Thomas 119-1H well; or
  - (B) the purchase agreement dated 24 June 2014 entered into by the Company to acquire the entire issued share capital of CEP Nolan Partners Inc.; or
- (ii) acquired by the Company in connection with the Company's analysis of proprietary geological, geotechnical and geophysical intellectual property owned by the Company as at the date of issue of the Class B Convertible Milestone Notes,  
(being the **Class B Milestone**).

**(f) Conversion Price**

Upon the automatic conversion of each Class B Convertible Milestone Note in the event that the Class B Milestone is attained during the Term each of the 1,000 fully paid ordinary shares shall be issued at A\$0.0001 per fully paid ordinary share in satisfaction of the unsecured debt owed by the Company to the Noteholder.

**(g) Written Notice**

The Company will provide written notice to all Class B Convertible Milestone Noteholders if the Class B Milestone is satisfied (including the date of satisfaction). The Company will, at its sole cost, determine at least once every twelve (12) months from the date of issue of the Class B Convertible Milestone Notes, whether the Class B Milestone has been attained and will commission a report from an independent petroleum reservoir engineer for this purpose.

**(h) Prohibition in section 606 of the Corporations Act**

A Class B Convertible Milestone Note which has attained the Class B Milestone during the Term, cannot be converted into fully paid ordinary shares if the conversion would result in the Noteholder (or someone else) breaching the prohibition set out in section 606 of the Corporations Act. If a Noteholder advises the Company in writing that the prohibition set out in section 606 of the Corporations Act applies to the Noteholder, then the Company shall as soon as is practicable call a meeting of the Company's shareholders in order to obtain approval for the purposes of item 7 of section 611 of the Corporations Act for the conversion to occur. Should shareholder approval not be obtained then the Company shall pay to the Noteholder within 28 days a sum of cash equal to the total number of fully paid ordinary shares that the Noteholder would have otherwise received had shareholder approval been obtained multiplied by the volume weighted average share price of the Company in the twenty (20) trading days preceding the date of satisfaction of the Class B Milestone.

**(i) No Quotation**

The Class B Convertible Milestone Notes will not be quoted on the ASX.

## 11. Rights Attaching to Securities (cont.)

**(j) Certificate**

A certificate will be issued for the Class B Convertible Milestone Notes.

**(k) Transferability**

The Class B Convertible Milestone Notes are not transferrable.

**(l) Pari Passu**

Upon the automatic conversion of each Class B Convertible Milestone Note in the event that the Class B Milestone is attained during the Term the fully paid ordinary shares into which the Class B Convertible Milestone Notes will convert will rank pari passu in all respect with existing fully paid ordinary shares of the Company.

**(m) Application for Quotation**

The Company must make an application to the ASX for the quotation of the fully paid ordinary shares issued on the automatic conversion of the Class B Convertible Milestone Notes in the event that the Class B Milestone is attained during the Term and will make such application within 7 days of the conversion occurring. The Company will not be under any obligation to ensure that such fully paid ordinary shares will be quoted on ASX.

**(n) Reorganisation of Capital**

In the event of a reorganisation or reconstruction (including but not limited to consolidation, subdivision, reduction or return) of the issued capital of the Company, the Class B Convertible Milestone Notes will be reorganised in accordance with the ASX Listing Rules and in any case in a manner which will not result in any benefits being conferred on Noteholders which are not conferred on other shareholders of the Company and for such purpose the Company may vary the number, conversion price or other terms of the Class B Convertible Milestone Notes in such manner as may be necessary to comply with the ASX Listing Rules.

**(o) Adjustment for Bonus Issue**

The number of fully paid ordinary shares to be issued pursuant to the automatic conversion of the Class B Convertible Milestone Notes in the event that the Class B Milestone is attained during the Term will be adjusted for bonus issues made prior to any conversion of the Class B Convertible Milestone Notes so that upon any automatic conversion of the Class B Convertible Milestone Notes, the number of fully paid ordinary shares received by the Class B Convertible Milestone Noteholder will include the number of bonus fully paid ordinary shares that would have been issued if the Class B Convertible Milestone Notes had been converted prior to the record date for the bonus issues. The conversion price of the Class B Convertible Milestone Notes shall not change as a result of any such bonus issues.

**(p) No participation in Entitlements and Bonus Issues**

Holders of Class B Convertible Milestone Notes shall not be entitled to participate in new issues of capital offered to holders of fully paid ordinary shares such as bonus issues and entitlement issues until the Class B Convertible Milestone Notes are converted into fully paid ordinary shares.

**(q) Nominee**

Fully paid ordinary shares that are issued as a result of the conversion of Class B Convertible Milestone Notes may be held in the name of the Class B Convertible Milestone Noteholder's nominee.

**(r) Conversion on Change of Control or Sale**

If:

- (i) a person or their associates is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 40% or more of the total voting power represented by the Company's then outstanding voting securities; or



- (ii) the Company sells or disposes of more than 75% of its holding in the oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA in which the Company has a working interest,

then the Class B Milestone shall be automatically deemed to have been attained and the Class B Convertible Milestone Notes shall automatically convert into fully paid ordinary shares in accordance with these terms, provided however that:

- (iii) each Class B Convertible Milestone Note will only convert into such number of fully paid ordinary shares as is determined by the following formula:

$$S = (R / 5,000,000) \times 1,000$$

where:

S = Total number of fully paid ordinary shares into which each Class B Convertible Milestone Note will convert, provided that if "S" is greater than 1,000 then it will be rounded down to 1,000; and

R = Total 2P Reserves (net to the Company) attained by the Company (expressed in number of barrels of oil equivalent (boe)) and as determined by an independent petroleum reservoir engineer; and

- (iv) if the total number of fully paid ordinary shares into which the Class B Convertible Milestone Notes and any other convertible milestone notes on issue by the Company (Other **Convertible Milestone Notes**) will, in aggregate, convert upon any application of this clause (r) and any analogous clause in respect of Other Convertible Milestone Notes will amount to more than 10% of the issued ordinary capital of the Company at the date of conversion, then the number of fully paid ordinary shares into which each Class B Convertible Milestone Note will convert upon application of this clause (r) will reduce pro rata such that the total number of fully paid ordinary shares into which the Class B Convertible Milestone Notes and Other Convertible Milestone Notes will convert will not exceed 10% of the issued ordinary capital of the Company at the date of conversion.

**(s) Issue of Fully Paid Ordinary Shares upon Conversion**

Fully paid ordinary shares issued pursuant to the conversion of the Class B Convertible Milestone Notes under these terms will be issued by the Company within 10 business days along with a holding statement for these fully paid ordinary shares.

**(t) Debt Payable if Class B Milestone not Achieved**

If the Class B Milestone is not achieved during the Term, then the Company shall pay the unsecured debt in cash to the Noteholder within seven (7) days.

## 11.5 TERMS AND CONDITIONS OF CLASS C CONVERTIBLE MILESTONE NOTES

**(a) Par Value of each Class C Convertible Milestone Note**

Each Class C Convertible Milestone Note is issued by the Company to the Noteholder at the issue price of A\$0.10. This constitutes an unsecured debt owed by the Company to the Noteholder.

**(b) Interest Rate**

Each Class C Convertible Milestone Note is issued by the Company on an interest free basis.

**(c) Security**

Each Class C Convertible Milestone Note is issued by the Company on an unsecured basis.

**(d) Term**

Each Class C Convertible Milestone Note is issued by the Company with a term which expires on 30 April 2019 (**Term**).

## 11. Rights Attaching to Securities (cont.)

### (e) Milestone

Each Class C Convertible Milestone Note shall automatically convert to 1,000 fully paid ordinary shares upon the Company announcing to ASX that during the Term the Company has attained 2P Reserves (net to the Company) of 10,000,000 barrels of oil equivalent (boe) and average daily production (net to the Company) of 1,000 barrels of oil equivalent (boe) per day (as determined by an independent petroleum reservoir engineer) from the oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA in which a working interest is:

- (i) held by the Company on the date of issue of the Class C Convertible Milestone Notes, or subsequently acquired by the Company, in either case pursuant to:
    - (A) the deed of assignment between the Company and Carina Energy Partners LLC dated 30 April 2014 in respect of the Thomas 119-1H well; or
    - (B) the purchase agreement dated 24 June 2014 entered into by the Company to acquire the entire issued share capital of CEP Nolan Partners Inc.; or
  - (ii) acquired by the Company in connection with the Company's analysis of proprietary geological, geotechnical and geophysical intellectual property owned by the Company as at the date of issue of the Class C Convertible Milestone Notes,
- (being the **Class C Milestone**).

### (f) Conversion Price

Upon the automatic conversion of each Class C Convertible Milestone Note in the event that the Class C Milestone is attained during the Term each of the 1,000 fully paid ordinary shares shall be issued at A\$0.0001 per fully paid ordinary share in satisfaction of the unsecured debt owed by the Company to the Noteholder.

### (g) Written Notice

The Company will provide written notice to all Class C Convertible Milestone Noteholders if the Class C Milestone is satisfied (including the date of satisfaction). The Company will, at its sole cost, determine at least once every twelve (12) months from the date of issue of the Class C Convertible Milestone Notes, whether the Class C Milestone has been attained and will commission a report from an independent petroleum reservoir engineer for this purpose.

### (h) Prohibition in section 606 of the Corporations Act

A Class C Convertible Milestone Note which has attained the Class C Milestone during the Term, cannot be converted into fully paid ordinary shares if the conversion would result in a Noteholder (or someone else) breaching the prohibition set out in section 606 of the Corporations Act. If a Noteholder advises the Company in writing that the prohibition set out in section 606 of the Corporations Act applies to the Noteholder, then the Company shall as soon as is practicable call a meeting of the Company's shareholders in order to obtain approval for the purposes of item 7 of section 611 of the Corporations Act for the conversion to occur. Should shareholder approval not be obtained then the Company shall pay to the Noteholder within 28 days a sum of cash equal to the total number of fully paid ordinary shares that the Noteholder would have otherwise received had shareholder approval been obtained multiplied by the volume weighted average share price of the Company in the twenty (20) trading days preceding the date of satisfaction of the Class C Milestone.

### (i) No Quotation

The Class C Convertible Milestone Notes will not be quoted on the ASX.

### (j) Certificate

A certificate will be issued for the Class C Convertible Milestone Notes.

### (k) Transferability

The Class C Convertible Milestone Notes are not transferrable.



**(l) Pari Passu**

Upon the automatic conversion of each Class C Convertible Milestone Note in the event that the Class C Milestone is attained during the Term the fully paid ordinary shares into which the Class C Convertible Milestone Notes will convert will rank pari passu in all respect with existing fully paid ordinary shares of the Company.

**(m) Application for Quotation**

The Company must make an application to the ASX for the quotation of the fully paid ordinary shares issued on the automatic conversion of the Class C Convertible Milestone Notes in the event that the Class C Milestone is attained during the Term and will make such application within 7 days of the conversion occurring. The Company will not be under any obligation to ensure that such fully paid ordinary shares will be quoted on ASX.

**(n) Reorganisation of Capital**

In the event of a reorganisation or reconstruction (including but not limited to consolidation, subdivision, reduction or return) of the issued capital of the Company, the Class C Convertible Milestone Notes will be reorganised in accordance with the ASX Listing Rules and in any case in a manner which will not result in any benefits being conferred on Class C Convertible Milestone Noteholders which are not conferred on other shareholders of the Company and for such purpose the Company may vary the number, conversion price or other terms of the Class C Convertible Milestone Notes in such manner as may be necessary to comply with the ASX Listing Rules.

**(o) Adjustment for Bonus Issue**

The number of fully paid ordinary shares to be issued pursuant to the automatic conversion of the Class C Convertible Milestone Notes in the event that the Class C Milestone is attained during the Term will be adjusted for bonus issues made prior to any conversion of the Class C Convertible Milestone Notes so that upon any automatic conversion of the Class C Convertible Milestone Notes, the number of fully paid ordinary shares received by the Noteholder will include the number of bonus fully paid ordinary shares that would have been issued if the Class C Convertible Milestone Notes had been converted prior to the record date for the bonus issues. The conversion price of the Class C Convertible Milestone Notes shall not change as a result of any such bonus issues.

**(p) No participation in Entitlements and Bonus Issues**

Holders of Class C Convertible Milestone Notes shall not be entitled to participate in new issues of capital offered to holders of fully paid ordinary shares such as bonus issues and entitlement issues until the Class C Convertible Milestone Notes are converted into fully paid ordinary shares.

**(q) Nominee**

Fully paid ordinary shares that are issued as a result of the conversion of Class C Convertible Milestone Notes may be held in the name of the Noteholder's nominee.

**(r) Conversion on Change of Control or Sale**

If:

- (i) a person or their associates is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 40% or more of the total voting power represented by the Company's then outstanding voting securities; or
- (ii) the Company sells or disposes of more than 75% of its holding in the oil and gas leases located within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA in which the Company has a working interest,

then the Class C Milestone shall be automatically deemed to have been attained and the Class C Convertible Milestone Notes shall automatically convert into fully paid ordinary shares in accordance with these terms, provided however that:

## 11. Rights Attaching to Securities (cont.)

- (iii) each Class C Convertible Milestone Note will only convert into such number of fully paid ordinary shares as is determined by the following formula:

$$S = (R / 10,000,000) \times 1,000$$

where:

S = Total number of fully paid ordinary shares into which each Class C Convertible Milestone Note will convert, provided that if "S" is greater than 1,000 then it will be rounded down to 1,000; and

R = Total 2P Reserves (net to the Company) attained by the Company (expressed in number of barrels of oil equivalent (boe)) and as determined by an independent petroleum reservoir engineer; and

- (iv) if the total number of fully paid ordinary shares into which the Class C Convertible Milestone Notes and any other convertible milestone notes on issue by the Company (**Other Convertible Milestone Notes**) will, in aggregate, convert upon any application of this clause (r) and any analogous clause in respect of Other Convertible Milestone Notes will amount to more than 10% of the issued ordinary capital of the Company at the date of conversion, then the number of fully paid ordinary shares into which each Class C Convertible Milestone Note will convert upon application of this clause (r) will reduce pro rata such that the total number of fully paid ordinary shares into which the Class C Convertible Milestone Notes and Other Convertible Milestone Notes will convert will not exceed 10% of the issued ordinary capital of the Company at the date of conversion.

**(s) Issue of Fully Paid Ordinary Shares upon Conversion**

Fully paid ordinary shares issued pursuant to the conversion of the Class C Convertible Milestone Notes under these terms will be issued by the Company within 10 business days along with a holding statement for these fully paid ordinary shares.

**(t) Debt Payable if Class C Milestone not Achieved**

If the Class C Milestone is not achieved during the Term, then the Company shall pay the unsecured debt in cash to the Noteholder within 7 days.

## 12. Authorisation

This Prospectus is authorised by each of the Directors of the Company and each has consented to the lodgement of this Prospectus in accordance with section 720 of the Corporations Act.

This Prospectus is signed for and on behalf of the Company by:



**JOHN D. KENNY**

**Non-Executive Director**

**Dated: 8 August 2014**

## 13. Glossary of Terms

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus. Terms used in the Independent Technical Expert's Report in Section 4 have the same meaning throughout this Prospectus unless otherwise defined.

<b>A\$ or Australian dollar</b>	Australian dollars, the lawful currency of Australia.
<b>Access Period</b>	in relation to the Company or a Relevant Company, the period commencing on the date of the Director's appointment and expiring on the date 7 years after the Retirement Date.
<b>Acreage Purchase Agreement</b>	has the meaning given in Section 1.7(b).
<b>Acquisition</b>	has the meaning given in Section 1.4.
<b>Allotment Date</b>	the date, as determined by the Directors, on which the Shares offered under this Prospectus are allotted, which is anticipated to be the date identified in the Indicative Timetable.
<b>Amerril</b>	Amerril Energy LLC, a Delaware limited liability company.
<b>Applicant</b>	a person who submits an Application Form.
<b>Application</b>	a valid application for Shares made pursuant to an Application Form.
<b>Application Form(s) or Form(s)</b>	an application form provided by the Company for the Shares offered pursuant to this Prospectus.
<b>Application Monies</b>	application monies for Shares received and banked by the Company.
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited and, where the context permits, the Australian Securities Exchange operated by ASX Limited.
<b>ASX Operating Rules</b>	the operating rules of ASX, except to the extent of any relief given by ASX.
<b>Board</b>	the board of Directors of the Company as at the date of this Prospectus.
<b>boe</b>	barrel(s) of oil equivalent.
<b>boepd</b>	barrel(s) of oil equivalent per day.
<b>Business Day</b>	a day on which ASX is open for trading.
<b>Carina</b>	Carina Energy Partners LLC.
<b>CEP</b>	means CEP Nolan Partners Inc.
<b>CEP Purchase Agreement</b>	has the meaning given in Section 1.4.
<b>Chatsworth Stirling</b>	Chatsworth Stirling Pty Ltd.



<b>CHES</b>	Clearing House Electronic Subregister System.
<b>Class A Convertible Milestone Notes</b>	the convertible milestone notes having the terms and conditions detailed in Section 11.3.
<b>Class B Convertible Milestone Notes</b>	the convertible milestone notes having the terms and conditions detailed in Section 11.4.
<b>Class C Convertible Milestone Notes</b>	the convertible milestone notes having the terms and conditions detailed in Section 11.5.
<b>Cline Shale</b>	an organic-rich shale formation located in the Permian Basin in central west Texas, USA.
<b>CLGL</b>	refers to China Leader Group Limited.
<b>Cline Shale Oil Play</b>	the Cline Shale oil play located in the Permian Basin in central west Texas, USA.
<b>Closing Date</b>	the date specified as the closing date for the Offer in the Indicative Timetable (or such earlier or later date determined by the Directors).
<b>Company</b>	Winchester Energy Limited ACN 168 586 445.
<b>Constitution</b>	the constitution of the Company.
<b>Convertible Milestone Notes</b>	Class A Convertible Milestone Notes, Class B Convertible Milestone Notes and Class C Convertible Milestone Notes.
<b>Corporations Act</b>	means the Corporations Act 2001 (Cth).
<b>CPS</b>	CPS Capital Group Pty Ltd ACN 088 055 636.
<b>CraRuth</b>	CraRuth Energy Corporation.
<b>Deed</b>	has the meaning given in Section 8.7.
<b>Deferred Cash Payment</b>	the deferred cash payment of US\$3,100,000 payable to the Vendors as described in Section 8.1(d)
<b>Directors</b>	the directors of the Company as at the date of this Prospectus.
<b>Eastern Shelf</b>	refers to the eastern shelf of the Permian Basin in central west Texas, USA.
<b>Ellenburger "E" Interval</b>	refers to a particular zone within the Ellenburger dolomite which is present across the Van Hoogen Oil Project Leases
<b>ESPB</b>	has the meaning given in Section 1.7(b).
<b>ESPB Contribution Agreement</b>	has the meaning given in Section 1.7(b).

## 13. Glossary of Terms (cont.)

<b>Exposure Period</b>	in accordance with section 727(3) of the Corporations Act, the period of 7 days (which may be extended by ASIC to up to 14 days) after lodgement of this Prospectus with ASIC during which the Company must not process Applications.
<b>Exercise Notice</b>	has the meaning given in Section 11.2.
<b>Exercise Period</b>	has the meaning given in Section 11.2.
<b>Exercise Price</b>	has the meaning given in Section 11.2.
<b>Expiry Date</b>	has the meaning given in Section 11.2.
<b>Financial Information</b>	means the Historical Financial Information and the Pro Forma Financial Information.
<b>General Meeting</b>	the general meeting of the Company to be held on 28 August 2014 for the purpose of approving resolutions in connection with the Acquisition and other related matters.
<b>GST</b>	Goods and Services Tax.
<b>HIN</b>	Holder Identification Number.
<b>Historical Financial Information</b>	has the meaning given in Section 7.2.
<b>Investigating Accountant</b>	BDO Corporate Finance (WA) Pty Ltd
<b>Investigating Accountant's Report</b>	the report in Section 6 prepared by the Investigating Accountant.
<b>Independent Technical Expert</b>	Ralph E Davis Associates, Inc.
<b>Independent Technical Expert's Report</b>	the report in Section 4 prepared by the Independent Technical Expert.
<b>Indicative Timetable</b>	the indicative timetable for the Offer on page 10 of this Prospectus.
<b>Insurance Run-Off Period</b>	that period commencing on the Retirement Date and expiring on the earlier of: <ul style="list-style-type: none"> <li>(a) the date 7 years after the Retirement Date; or</li> <li>(b) where run-off insurance cannot be procured at reasonable premiums for the full period in paragraph (a), the latest date to which run-off insurance can be procured.</li> </ul>
<b>Joint Lead Managers</b>	CPS and Patersons.
<b>Listing Rules</b>	the official listing rules of ASX and any other rules of ASX which are applicable while any Shares are admitted to the Official List of ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX.
<b>Management Fee</b>	has the meaning given in Section 8.5.
<b>Mandate</b>	has the meaning given in Section 8.5.



<b>MCG Drilling</b>	MCG Drilling Investments LLC.
<b>MMbbl</b>	one million barrels of oil.
<b>Minimum Subscription</b>	has the meaning given in Section 3.2.
<b>Noteholder</b>	any person holding Convertible Milestone Notes.
<b>Notice of General Meeting</b>	the notice of general meeting with respect to the General Meeting.
<b>Offer</b>	the offer made under Section 3.1.
<b>Offer Period</b>	the period from the Opening Date up to and including the Closing Date.
<b>Official List</b>	the official list of ASX.
<b>Official Quotation</b>	official quotation of the Shares on the Official List.
<b>Opening Date</b>	the date specified as the opening date in the Indicative Timetable.
<b>Option</b>	an option granted by the Company to subscribe for one Share with the rights outlined in Section 11.2 and Options has a corresponding meaning.
<b>Optionholder</b>	any person holding Options.
<b>Patersons</b>	Patersons Securities Limited ABN 60 008 896 311.
<b>Pro Forma Financial Information</b>	has the meaning given in Section 7.3.
<b>Prospectus</b>	this Prospectus with the date in Section 12.
<b>Relevant Company</b>	any subsidiary of the Company of which a Director is at any time, after the date of the Deed, appointed as a director.
<b>Retirement Date</b>	the date on which a Director ceases to hold office as a Director.
<b>Section</b>	a section of this Prospectus.
<b>Securities</b>	a Share, Convertible Milestone Note or Option issued or granted (as the case may be) by the Company.
<b>Selling Fee</b>	has the meaning given in Section 8.5.
<b>Share</b>	an ordinary fully paid share in the capital of the Company and Shares has a corresponding meaning.
<b>Shareholder</b>	any person holding Shares.

## 13. Glossary of Terms (cont.)

<b>Share Registry</b>	Automatic Registry Services.
<b>Share Success Fee</b>	has the meaning given in Section 8.5.
<b>SRN</b>	Shareholder Reference Number.
<b>Thomas Deed of Assignment</b>	has the meaning given in Section 1.3.
<b>Thomas Well</b>	has the meaning given in Section 1.3.
<b>Thomas Well JOA</b>	has the meaning given in Section 1.3.
<b>USA</b>	United States of America.
<b>USA Lawyers' Report</b>	the legal report on the Company's oil and gas assets in Texas, USA contained in Section 5 prepared by Looper Ballew, the Company's USA lawyers.
<b>US\$ or US dollar</b>	United States dollars, the lawful currency of the USA.
<b>Van Hoogen Oil Project</b>	has the meaning given in the Investment Overview.
<b>Van Hoogen Oil Project Area</b>	the area within the boundaries of Kent, Stonewall, Fisher, Nolan, Mitchell, Coke and Tom Green Counties, Texas, USA.
<b>Van Hoogen Oil Project Leases</b>	has the meaning given in Section 1.4.
<b>Vendor Contribution Agreement</b>	has the meaning given in Section 1.7(b).
<b>Vendors</b>	has the meaning given in Section 1.4.
<b>Vendor Securities</b>	has the meaning given in Section 8.1.
<b>WST</b>	Western Standard Time as observed in Perth, Western Australia.

# Application Form



This is an Application Form for Shares in Winchester Energy Limited under the terms set out in the Prospectus dated 8 August 2014. This Application Form and your cheque must be received by one of the Joint Lead Managers to the Offer (CPS Capital or Patersons Securities) by the Closing Date. The Prospectus contains important information relevant to your decision to invest and you should read the entire Prospectus before applying for Shares. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser.

## 1. NUMBER OF SHARES YOU ARE APPLYING FOR

## 2. TOTAL AMOUNT PAYABLE (multiply Box 1 by \$0.20)

Applications must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares.

## 3. WRITE THE NAME(S) YOU WISH TO REGISTER THE SHARES IN (see reverse for instructions)

Name of Applicant 1

Name of Applicant 2 or <Account Designation>

Name of Applicant 3 or <Account Designation>

## 4. WRITE YOUR POSTAL ADDRESS HERE – TO BE REGISTERED AGAINST YOUR HOLDING

Number/Street

Suburb/Town

State

Postcode

## 5. CHESS PARTICIPANTS ONLY – HOLDER IDENTIFICATION NUMBER (HIN)

Note: if the name and address details in sections 3 & 4 above do not match exactly with your registration details held at CHESS, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.

## 6. EMAIL ADDRESS (see reverse of form – this is for all communications legally permissible and despatched by the Company)

## 7. TFN/ABN/EXEMPTION CODE

Applicant 1

Applicant #2

Applicant #3

If NOT and individual TFN/ABN, please note the type in the box C = Company; P = Partnership; T = Trust; S = Super Fund

## 8. PLEASE INSERT CHEQUE DETAILS

Cheques must be drawn on an Australian branch of a financial institution in Australian currency, made payable to **Winchester Energy Limited – Share Application Account** crossed "Not Negotiable" and forwarded to one of the Joint Lead Managers to the Offer (CPS Capital or Patersons Securities) by no later than the Closing Date.

Cheque Number

BSB

Account Number

## 9. CONTACT DETAILS

Please use details where we can contact you between the hours of 9:00am and 5:00pm should we need to speak to you about your application.

Telephone Number

Contact Name (PRINT)

# INSTRUCTIONS FOR COMPLETION OF THIS APPLICATION FORM

## YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM

Please complete all relevant sections of this Application Form using BLOCK LETTERS. The below instructions are cross-referenced to each section of the Application Form.

### 1 NUMBER OF SHARES

Insert the number of Shares you wish to apply for in section 1. Your application must be for a minimum of 10,000 Shares and in multiples of 1,000 Shares thereafter.

### 2 PAYMENT AMOUNT

Enter into section 2 the total amount payable. Multiply the number of Shares applied for by \$0.20 – the application price per Share.

### 3 NAME(S) IN WHICH THE SHARES ARE TO BE REGISTERED

Note that ONLY legal entities can hold Shares. The application must be in the name of a natural person(s), companies or other legal entities acceptable by the Company. At least one full given name and surname is required for each natural person.

## CORRECT FORMS OF REGISTRABLE TITLE

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Trusts	Mr John Richard Sample <Sample Family A/C>	John Sample Family Trust
Superannuation Funds	Mr John Sample & Mrs Anne Sample <Sample Family Super A/C>	John & Anne Superannuation Fund
Partnerships	Mr John Sample & Mr Richard Sample <Sample & Son A/C>	John Sample & Son
Clubs/Unincorporated Bodies	Mr John Sample < Food Help Club A/C>	Food Help Club
Deceased Estates	Mr John Sample <Estate Late Anne Sample A/C>	Anne Sample (Deceased)

### 4 POSTAL ADDRESS

Enter into section 4 the postal address to be used for all written correspondence. Only one address can be recorded against a holding. With exception to annual reports, all communications to you from the Company will be mailed to the person(s) and address shown. Annual reports will be made available online when they are released. Should you wish to receive a hard copy of the annual report you must notify the Share Registry. You can notify any change to your communication preferences by visiting the registry website – [www.automic.com.au](http://www.automic.com.au)

### 5 CHESS HOLDERS

If you are sponsored by a stockbroker or other participant and you wish to have your allocation directed into your HIN, please complete the details in section 5.

### 6 EMAIL ADDRESS

As permitted under the Corporations Act, Winchester Energy Limited will only be forwarding printed annual reports to shareholders electing to receive one. Our company annual report and company information will be available at [www.winchesterenergy.com](http://www.winchesterenergy.com). You may elect to receive all communications despatched by Winchester Energy Limited electronically (where legally permissible) such as a notice of meeting, proxy form and annual report via email.

### 7 TFN/ABN/EXEMPTION

If you wish to have your Tax File Number, ABN or Exemption registered against your holding, please enter the details in section 7. Collection of TFN's is authorised by taxation laws but quotation is not compulsory and it will not affect your Application Form.

### 8 CHEQUE DETAILS

Cheques must be drawn on an Australian branch of a financial institutional in Australian currency, made payable to

**Winchester Energy Limited – Share Application Account** and crossed "Not Negotiable". Please complete the relevant details in section 8.

### 9 CONTACT DETAILS

Please enter contact details where we may reach you between the hours of 9:00am and 5:00pm should we need to speak to you about your application.

## HOW TO LODGE YOUR APPLICATION FORM

Mail or deliver your completed Application Form with your cheque to the following address.

Mailing Address	Hand Delivery
Winchester Energy Limited C/- CPS Capital Group Pty Ltd or C/- Patersons Securities Limited Level 45 BankWest Tower 108 St Georges Terrace Perth WA 6000 Australia	Winchester Energy Limited C/- CPS Capital Group Pty Ltd or C/- Patersons Securities Limited Level 45 BankWest Tower 108 St Georges Terrace Perth WA 6000 Australia
	C/- Patersons Securities Limited Level 23 Exchange Plaza 2 The Esplanade Perth WA 6000 Australia



[www.winchesterenergyltd.com](http://www.winchesterenergyltd.com)