

WINCHESTER ENERGY LIMITED
ACN 168 586 445



QUARTERLY REPORT

For the period ended 30 September 2017



"Australian junior taking on the Permian heavyweights" RGN 2017

HIGHLIGHTS

Winchester Energy Ltd's (Winchester or Company) gross oil production (across all oil wells in which Winchester has a working interest) was 27,806 barrels of oil (bo) produced during the September 2017 quarter as shown in the table below:

Gross Oil Production (bo)	September Quarter 2017	June Quarter 2017	March Quarter 2017	December Quarter 2016	September Quarter 2016
Oil Production (Gross 100%WI)	27,806	39,533	28,633	37,876	35,428
Oil Sales (Gross 100%WI)	27,409	39,833	28,467	37,642	35,113

Note: These figures show gross oil production only (they exclude gas sales). Winchester is entitled to 50% of net proceeds after royalty payments of 23.5% to the oil and gas mineral rights owners of the White Hat Ranch oil and gas lease.

- Total revenue was US\$486,929. Total oil revenue was US\$445,963 and total gas sales revenue was US\$40,966. The average sale price per bo was US\$45.46 and gas was \$3.41 per mcf.
- In July 2017 Winchester, as operator, drilled the vertical component of the White Hat 38#3ML multi-horizontal lateral well targeting the Ellenburger Formation.
- Through an evaluation of logs, sidewall cores, image data and other relevant information relating to the Ellenburger Formation, three prospective zones were selected as intervals for up to four horizontal laterals to be drilled, with the first horizontal lateral commencing drilling in late September 2017.
- Subsequent to the end of the September 2017 quarter, the Company announced the successful first ultra-short radius horizontal lateral completed in the White Hat 38#3ML well (Leg 1). Initial swab testing returned 100 to 150 barrels of fluid per day with oil cuts between 30% and 70%.
- This initial swab rate from the first ultra-short radius lateral well drilled in the area represents a significant step forward for Winchester as it demonstrates that a well with a 152 metre (500 foot) horizontal lateral can be drilled successfully and can intersect materially larger amounts of oil and gas pay than vertical drilling.
- On 20 September 2017 Winchester announced that the White Hat 39#1 reached a total depth (TD) of 2,133 metres (7,000ft). White Hat 39#1 was then evaluated with electric logs and sample analyses. Encouragingly, wireline logs indicate that the Ellenburger Formation contains 6.7 metres (21ft) of potential net oil pay within a gross oil interval of 46 metres (150ft).
- Should results of the White Hat 38#3ML horizontal lateral drilling indicate that multiples of oil production increases are achievable, then multiple short-radius horizontal lateral legs may be drilled in the Ellenburger oil pay zones of White Hat 39#1. White Hat 39#1 will also be considered for a vertical completion if horizontal laterals are not drilled.
- During the September 2017 quarter Winchester appointed experienced oil and gas professional John Kopcheff as Non-Executive Chairman of the Company.

OIL PRODUCTION SUMMARY

Total Oil Production

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

Gross Oil Production (bo)*	September Quarter 2017	June Quarter 2017	March Quarter 2017	December Quarter 2016	September Quarter 2016
Oil Production (Gross 100%WI)	27,806	39,533	28,633	37,876	35,428
Oil Sales (Gross 100%WI)	27,409	39,833	28,467	37,642	35,113
Net Oil Production to Winchester (bo) (50% Working Interest)*					
Quarterly Oil Production (Net)	13,903	19,766	14,316	18,938	17,714
Quarterly Oil Sales (Net)	13,704	19,916	14,233	18,821	17,556

* Please note that all oil and gas production from the White Hat ranch oil and gas lease is subject to royalty payments of 23.5% to the oil and gas rights owners of the White Hat ranch. The figures represented above are for oil production only (and exclude gas sales) and are pre-royalty.



Location of the Company's acreage position in Nolan and Coke County, Texas, USA

To date, Winchester's wells in Nolan County have produced a total gross 251,600 barrels of oil and 132 million cubic feet of gas with cumulative net production to Winchester of 129,700 barrels of oil and 66 million cubic feet of gas.

There has been a decline in production this past quarter, partially as a result of normal decline, but also due to down-time for remedial well formation treatment to restore production. CEGX is reviewing the well production and planning additional treatments to restore optimum rates of production.

OPERATIONS SUMMARY

The September 2017 quarter was a pivotal quarter for the Company as it commenced drilling and completion activities as operator on the White Hat Ranch oil and gas lease located in the eastern shelf of the Permian Basin in central west Texas, USA. Winchester currently has a 50% working interest (WI) in the previous eight wells drilled to date by former operator, CEGX, who holds the remaining 50% WI.

Currently the agreement with CEGX on the White Hat oil and gas lease is WI arrangement of Winchester 75% WI/CEGX 25% WI. Further, Winchester has operatorship of the White Hat Ranch lease operations outside the eight 40 acre drilling units operated by CEGX where CEGX will continue as operator. Winchester has a 100% WI in five other leases adjacent to the White Hat Ranch oil and gas lease all of which contain the highly prospective Ellenburger Formation along with several other overlying oil-producing formations.

In a milestone for the Company, ultra-short radius horizontal lateral drilling commenced during the September quarter. Winchester believes this horizontal drilling technology will allow improved well productivity as it will provide the ability to intersect multiple fracture zones over a greater net oil pay length than present in the vertical well bore. At the same time, these horizontal laterals will also connect the zones of better productive characteristics. Success with this drilling technique, new to the area, could greatly increase oil production rates with associated enhancement of well economics and be a key driver of growth for the Company.

White Hat 38#3ML Multi-Lateral Well (WEL working Interest- 60%)

On 25 July 2017 Winchester advised that it had commenced the drilling of the White Hat 38#3ML multi-lateral well on its White Hat lease in Nolan County, Texas, USA.

This well is the first well that Winchester has operated on the White Hat Ranch oil and gas lease. Winchester has a 60% working interest (WI) in the White Hat 38#3ML well but is paying for 70% of the costs of the well. This arrangement is a function of a one-off contractual agreement with former operator CEGX, whereby CEGX is 10% free-carried by the Company in one well only. The

remaining 30%WI participant in the well is US based drilling company, Ultra Short Radius Drilling (USR) (<http://www.usrdrilling.com/>).

USR is a specialist group with proprietary ultra-short radius horizontal lateral drilling (or multi-lateral) technology and to be able to attract a proven drilling company such as USR to not only employ the innovative multi-lateral horizontal drilling technique to the Ellenburger Formation but also to contribute financially to the drilling of the well is a highly encouraging sign for the Company.

The Company is planning to test the technology by drilling up to four 152 metre (500 feet) horizontal lateral sections 610 metres in total (2,000 feet) from one vertical well bore. All four horizontal laterals will be in the Ellenburger Formation.

Following the completion of the vertical well bore component of White Hat 38#3, on 25 September 2017 the Company announced the commencement of the first short-radius horizontal lateral leg of the White Hat 38#3ML well targeting the Ellenburger Formation.

The Ellenburger Formation intersected at 2,036 metres (6,681ft) in White Hat 38#3ML had indicated multiple oil pay zones over an interval of 46 metres (150ft). Also encouraging is that White Hat 38#3ML during drilling of the vertical component of the well encountered oil and gas shows through historically productive formations over the interval of 1,570 to 1,814 meters (5,150 to 5,950ft) with calculated log pay of 23 meters (74ft) overlying the Ellenburger Formation.

Subsequent to the end of the September 2017 quarter the Company advised that it had reached total depth on the first ultra-short radius horizontal lateral in the White Hat 38#3ML well (Leg 1).

Leg 1 encountered a total of approximately 45 metres (150 feet) of very good oil and gas shows whilst drilling laterally within the upper zone of the Ellenburger Formation. The oil and gas shows encountered during the drilling of Leg 1 were materially superior in nature and extent to the 2 metres of net oil and gas shows encountered in the vertical well bore. This is precisely the outcome that Winchester hoped to observe.

After reaching total depth the well was then swabbed and almost immediately free-flowed oil and gas to surface at 18 barrels of oil per hour at a calculated daily rate of 432 barrels of fluid per day.

After the initial production rate slowed, a clean-up acid treatment was run and subsequent swabbing over several days through two and 7/8" production tubing resulted in fluid production rates of 100 to 150 barrels of fluid per day with oil cuts increasing from 30% to 70% as the well cleaned up.

The deployment by Winchester of USR's proprietary equipment and technology to drill this "barefoot" ultra-short radius horizontal lateral within the upper zone of the Ellenburger Formation has occurred without any significant operational or engineering difficulties or complications. Accordingly, the successful drilling of Leg 1, along with the positive results returned from initial flow testing and swabbing of Leg 1 in the upper zone of the Ellenburger Formation, is a major milestone for the Company given the potential of this ultra-short radius lateral drilling technique to substantially improve well oil production rates and economics.

The swabbing rates achieved in Leg 1 are a significant increase on the modest oil production rates that could have been expected from a vertical stand-alone completion of this well. These upper zones of the Ellenburger Formation with oil pay in Leg 1 are the same targets for the second ultra-short radius horizontal lateral leg (Leg 2) to be drilled by USR.

The cost of drilling Leg 1 has been approximately US\$200,000.

White Hat 39#1 Well (WEL working Interest- 100%)

On 20 September 2017 The Company advised that the White Hat 39#1 well on its White Hat Ranch oil and gas lease in Nolan County, Texas, USA had reached TD of 2,133 metres (7,000ft). The well is located approximately 1.6 kms (1 mile) west of White Hat 38#3ML.

The White Hat 39#1 well was evaluated with electric logs and sample analyses. Wireline log interpretation indicate that the Ellenburger Formation contains 6.7 metres (21ft) of potential net oil pay within a gross oil interval of 46 metres (150ft). Additional oil pay potential from fractures is also interpreted as present.

Wireline Log analyses and oil shows indicate the shallower zones, Strawn, Pennsylvanian Carbonates and Canyon Sand Formations from 1,630 to 1,905 meters (5,350 to 6,250ft) have calculated 17 meters (55ft) of potential oil pay.

The White Hat 39#1 well has been drilled and completed so as the Company has the option to employ the multiple short-radius horizontal lateral drilling techniques being used in the White Hat 38 #3ML well.

Should the lateral drilling results of the White Hat 38#3ML drilling indicate that multiples of oil production increases are achievable, then multiple short-radius lateral legs may be drilled in the Ellenburger oil pay zones of White Hat 39#1. White Hat 39#1 may also be a candidate for a vertical completion if horizontal laterals are not drilled.

Results from Oden A#2 (WEL working interest – 25%)

Winchester participated in the drilling of vertical well Oden A#2, thereby earning a 25% WI in 400 acres. This well was offset to existing production, including two wells that produced a total of 162,000 bo and 101 MMCF from the Ellenburger Formation and another three wells that produced a total of 231,000 bo and 86 MMCF from the Strawn Formation. The Oden A#2 was drilled 31 March 2017 to a TD of 2,057 metres (6,750 feet) to target stacked pays. The Oden A#2 is located approximately 2 miles south-east of Winchester's producing wells on the White Hat Ranch.

Clear Fork Inc. (Clear Fork), an oil and gas company active in the Nolan County, Texas, is the operator of the Oden A#2 well.

Based on oil and gas shows during drilling and logging results, two formations in the Oden A#2 vertical well, the Strawn and the Ellenburger, were considered prospective for oil and gas.

In July 2017 Clear Fork advised that they had initially completed Oden A#2 within the Ellenburger Formation. For the ten days of production ending 10 July, Oden A#2 produced an average of 21 bopd and 91 bwpd. The rates declined and the well was then recompleted and hydraulically fractured in the Lazarus sand within the Strawn Formation. Results indicate that the interval appears to be have been depleted.

Clear Fork is reviewing other prospective intervals within the overlying Strawn and Canyon Formations. The well the cost attributable to Winchester is estimated at USD \$170,000.

White Hat 38#1 Re-Completion – Strawn Formation (WEL working interest-50%)

The White Hat 38#1 vertical well was spudded by the operator (CEGX) in September 2016 as an offset to the successful White Hat 21#4 well.

The 38#1 well recovered oil at low rates of 70-100 barrels of total fluid per day at 5-20% oil cut during swabbing from two separate zones of the Ellenburger Formation. The 38#1 well was then fracture stimulated in an attempt to improve the production rate however pump production only recovered water at high rates (300-400 bwpd). Micro-seismic was used by Winchester to monitor the fracture paths from the White Hat 38#1 well bore and that indicated the frack penetrated downwards into a deeper water bearing zone, near the base of the Ellenburger Formation.

Whilst drilling the White Hat 38#1 well, oil shows were observed in two intervals within the Strawn Formation. Subsequent log interpretation results confirmed these two intervals within the Strawn Formation as having potential oil pay and worthy of testing.

Similar to the successful re-completion of the nearby White Hat 20#2 well within a sand unit in the Strawn Formation (see announcement dated 19 April 2017), the Operator abandoned the Ellenburger Formation and re-completed the well by fracking prospective intervals within the Strawn Formation.

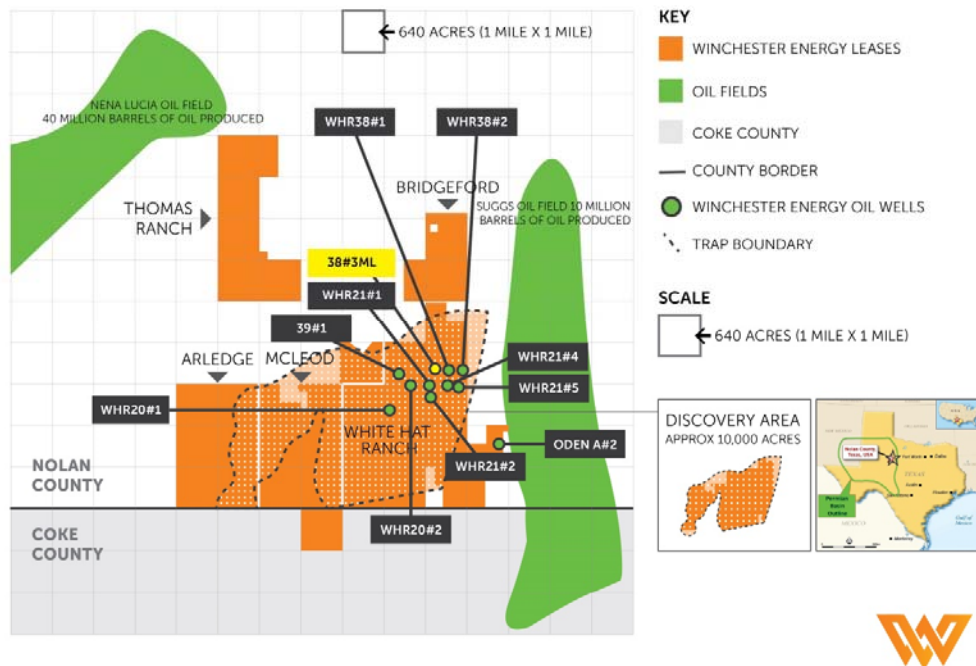
For the three days of production ending 11 July 2017, White Hat well 38#1 produced an average of 28 bopd and 76 bwpd on beam pump.

COMPANY STRATEGY

Expansion of Oil Production Base

As demonstrated by the oil production summary tabled above, Winchester derives significant oil production and revenue from the White Hat Ranch lease and has the stated objective of building this production base to ensure free cash flow is large enough in due course to support an on-going drilling programme.

The Company has established an area of 40 square kilometres (10,000 acres) where the Ellenburger has been proven productive in several wells (see map below) which extends over 3 leases and partially a fourth. This 40 square kilometre area (10,000 acres) out of Winchester's 77 net square kilometres (19,000 acres) of leasehold is expected to be productive based on drilling results, new ultra-short radius horizontal drilling and completion technologies and 3D seismic interpretations.



Ultra-Short Radius Drilling – Increasing Ellenburger Exposure

The Company is currently trialling ultra-short radius horizontal drilling techniques in the Ellenburger Formation whereby numerous horizontal lateral wells (typically 152 metres (500ft) in length) can be drilled from the one vertical well bore. Winchester has an agreement with US-based drilling company Ultra-Short Radius Drilling (USR) whereby Winchester has the right to utilise USR's proprietary short radius drilling technology exclusively across both Nolan and Coke County in Texas, USA. Should the USR horizontal drilling technique prove effective and substantially increase production rates, this is a huge advantage for the Company as it effectively provides a monopoly for the Company to utilise this technology over a vast area of the Ellenburger.

USR are participating in the drilling of White Hat 38#3ML. To be able to attract a proven drilling company such as USR to not only employ the innovative multi-lateral horizontal drilling technique to initially the Ellenburger Formation and then other horizons, but also to contribute financially to the drilling of the well is a highly encouraging sign for the Company.

Stacked Pay Opportunities in Winchester's Leasehold acreage

The Eastern shelf of the Permian Basin has produced oil and gas from multiple intervals for over 60 years. Many of these productive zones are developed across the Winchester acreage. These include Odom, Strawn and Canyon (Wolfcamp "D") Formations. This has become particularly

significant given the production rate observed from the Fry Sand unit within the Strawn Formation in the White Hat 20#2 well. This well had an initial production rate of 200 bopd and average 145 bopd over its first 30 days of production. The well has produced 17,000 bo over the last 6 months and is currently averaging 70 bopd. Mapping has confirmed a sizeable area for future development with drilling and completion costs of less than US\$500,000 per well.

Other prospective units occur within the Strawn and Canyon Formations between 1219 -1981 metres (4,000 - 6,500 feet).

The 3D seismic evaluations have identified an undrilled Strawn Formation channel covering up to 8.1 square kilometres (2,000 acres). Winchester has also identified a significant Canyon slope fan system encased within the Cline oil shales which sourced the oil production in the 20#2 Fry sands based on geochemical samples. This system extends over an area of 10.1 square kilometres (2,500 acres).

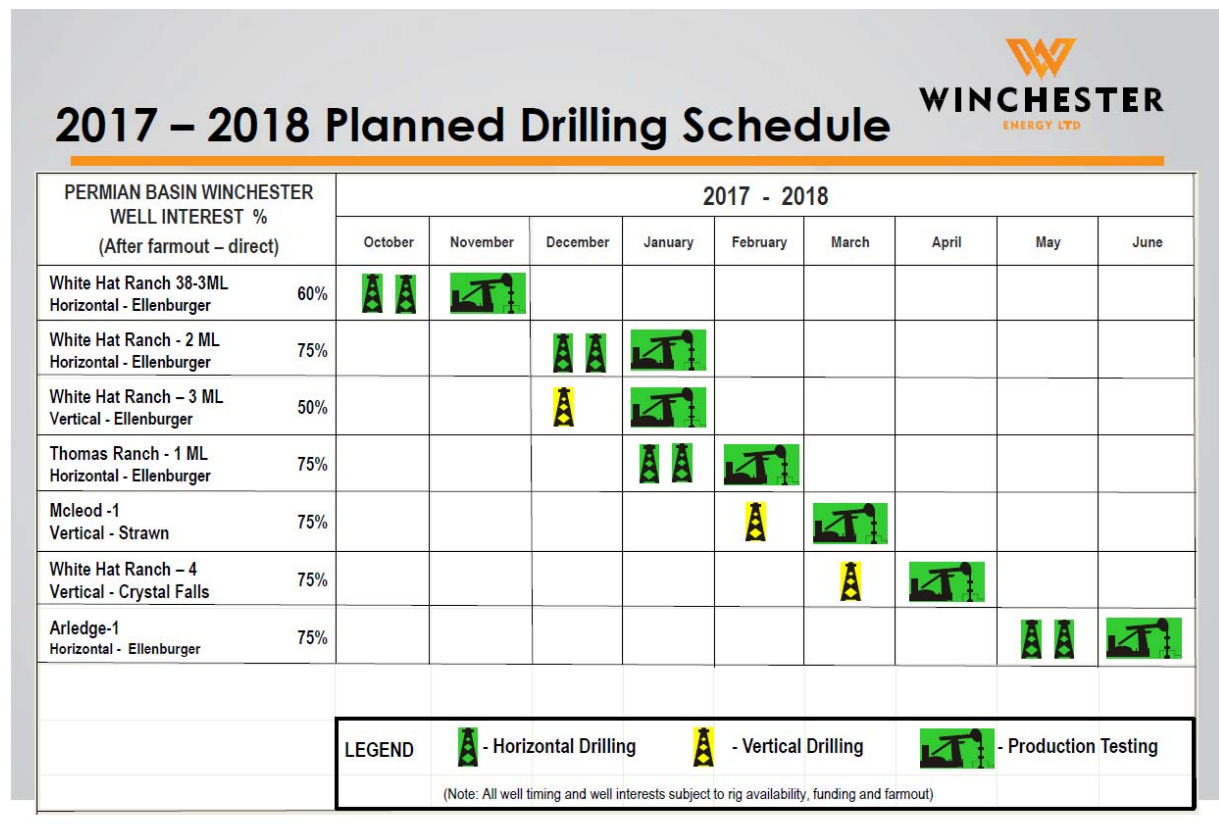
The Company is currently conducting a detailed assessment of these intervals for drilling and production testing given oil shows during drilling across all eight wells drilled to date.

PLANNED ACTIVITIES – NEXT QUARTER

The planned activities for the quarter ending December 2017 are:

- Winchester, as operator, will drill and complete the remaining planned horizontal lateral components of 38#3ML and proceed to a review of vertical well 39#1 as a candidate for immediate horizontal lateral drilling.
- Prepare for a re-entry of the Thomas Ranch 119 vertical well bore where the company is planning two ultra-short radius horizontal laterals to retest the Upper Ellenburger.
- Continue the detailed assessment of opportunities overlying the Ellenburger Formation (including intervals within the Strawn Formation) with a view to potentially re-entering existing under-performing wells and/or drilling new wells.
- Develop a series of Strawn Formation, offset locations and supporting economics for a multi-well development program to follow up the success of the recompletion of White Hat 20#2.
- Continued assessment of the upside potential of various Strawn and Canyon sand and carbonate opportunities within the Company's current acreage position and their potential for drilling in the first quarter of 2018.

A possible drilling activity schedule, subject to the reviews detailed above, rig availability, funding and farmout with proposed Company interests in each well follows. This drilling schedule and the Company's interest in each well will be updated as plans for the drilling of each respective well are finalized.



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

CORPORATE

During the September 2017 quarter the Company announced the appointment of experienced oil and gas professional John Kopcheff as Non-Executive Chairman of the Company effective immediately.

John Kopcheff B.Sc (Hons) (Geology and Geophysics) AAPG, SPE, AIMM is a geologist and geophysicist, with over 40 years of experience in Australia, South East Asia, USA, South America and the North Sea in oil and gas exploration, development, oil field operations and management.

Mr Kopcheff founded Victoria Petroleum Ltd (now Senex Energy Ltd) and held the position of Managing Director for 26 years from 1984 to 2010 where he successfully pioneered oil exploration and production on the western margin of the South Australian Cooper Basin.

During that time Victoria Petroleum Ltd increased its market cap from \$10 million at float to \$330 million at his retirement.

Peter Allchurch will step down as Chairman and remain a Non-Executive Director of the Company.

The Company ended the quarter with cash reserves (in Australian dollar equivalent) of approximately AUD\$2,955,360.

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

Cash (AUD\$0.76: USD\$1.00)	AUD \$2,955,360
Total shares on issue and quoted	250,148,832
Total options on issue 30m @ \$0.25 (expire 30 April 2019) 14M @ \$0.12 (expire 31 January 2022)	44,000,000
Total convertible recoverable reserve milestone notes (converting to 60,000,000 shares)	60,000
Market capitalisation @ A\$0.12	AUD \$30,017,860
Enterprise Value of the Company's assets	AUD\$27,062,500
Founders, Board and Management (% ownership of the Company)	48%

LAND AND LEASE ACTIVITIES

All of the Company's oil and gas leases are within their primary terms and the Company has no lease obligation wells in the next quarter in order to maintain its current acreage position.

The Company has continuous drilling provisions on each lease after the primary term expires. This allows the Company to manage its drilling program efficiently and to avoid being pressured to drill wells continuously in order to hold its acreage position and to retain its interest over all depths and not be forced to relinquish any shallow or deeper rights. Three leases cover the 40 square kms (10,000 acres) that is currently identified as the prospective Ellenburger trap area. However, additional oil and gas is likely to be trapped in the Ellenburger of both the Thomas and Bridgeford leases. In addition, several shallow productive intervals are expected to be potentially developed in due course over the Company's total net leasehold of 77 square kilometres (19,000 acres).

Oil and Gas Leases Held as at 30 September 2017

The Company's lease holding at the end of the September 2017 quarter is 77 net square kilometres (19,000 acres). The Company's lease holding did not change during the quarter.

	% Interest	Lease	Location
Held at end of quarter			
	75%	White Hat Ranch	Nolan County Texas
	100%	Bridgeford Ranch	Nolan County Texas
	100%	Thomas Ranch	Nolan County Texas
	100%	Mcleod	Nolan County Texas
	100%	Arledge	Nolan County Texas
	100%	Coke	Coke County Texas
Acquired during the quarter	25%	Oden Drilling Unit (100 net acres)	Nolan County Texas
Disposed during the quarter	-	-	-

GLOSSARY

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

A\$ or Australian dollar	Australian dollars.
ASX	ASX Limited and, where the context permits, the Australian Securities Exchange operated by ASX Limited.
Board	the board of Directors of the Company.
Bo	barrels(s) of oil.
Boe	barrel(s) of oil equivalent.
Boepd	barrel(s) of oil equivalent per day.
Bopd	barrel(s) of oil per day.
CEGX	Carl E Gungoll Exploration LLC
Company	Winchester Energy Limited ACN 168 586 445.
Corporations Act	means the Corporations Act 2001 (Cth).
Eastern Shelf	refers to the eastern shelf of the Permian Basin in central west Texas, USA.
JOA	Joint Operating Agreement
Share	an ordinary fully paid share in the capital of the Company and Shares has a corresponding meaning.
Shareholder	any person holding Shares.
USA	United States of America.
US\$ or US dollar	United States dollars, the lawful currency of the USA.
WI	working interest

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements which are identified by words such as "believes", "estimates", "expects", "targets", "intends", "may", "will", "would", "could", or "should" and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this report, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management of the Company. These risks, uncertainties and assumptions could cause actual results to differ materially from those expressed in any forward-looking statements. The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this report, except where required by law. The Company cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this report will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

COMPETENT PERSON'S STATEMENT

The information in this report is based on information compiled or reviewed by Mr Neville Henry. Mr Henry is a qualified petroleum geologist with over 43 years of Australian, USA and other international technical, operational and executive petroleum experience in both onshore and offshore environments. He has extensive experience of petroleum exploration, appraisal, strategy development and reserve/resource estimation, as well as new oil and gas ventures identification and evaluation. Mr Henry has a BA (Honours) in geology from Macquarie University.