



WINCHESTER

ENERGY LIMITED

ACN 168 586 445

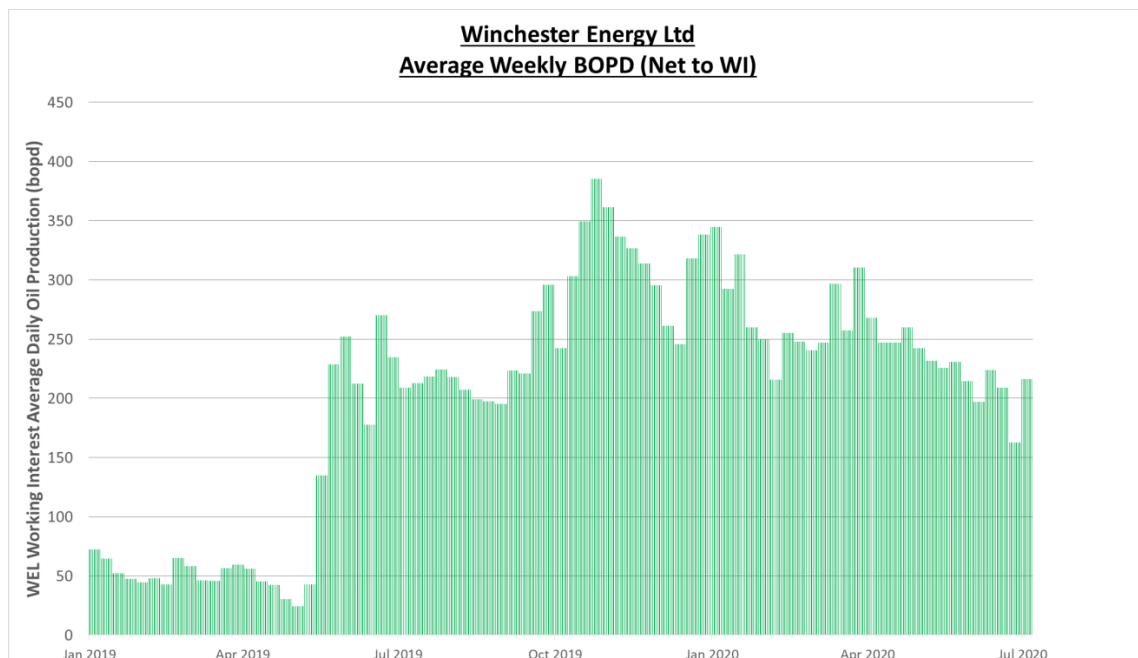
ASX: WEL

QUARTERLY REPORT

For the period ending 30 June 2020

HIGHLIGHTS

- Net oil & gas revenue in the reporting period was AUD\$707,000¹. Cost reductions and improved oil prices are expected to result in improved cashflow in the current quarter.
- Average production of 226 barrels of oil per day (bopd) during the reporting period net to Winchester's Working Interest (WI).
- Low-cost re-completions of wells to commence designed to further increase production.
- Production operating costs ("Opex" or "lifting costs") reduced to US\$2.46/barrel².
- Independent assessment significantly increased Winchester's petroleum Reserves and Resources as of 31 December 2019, with the Total "Best Estimate" Resources increasing by 49% over the previous estimate.
- Winchester Reserves and Resources as of 31 Dec 2019³:
 - 3P Reserves: 1.65 million barrels of oil equivalent (mmboe)⁴
 - Contingent Resources ('Best Estimates'): 6.72 mmboe
 - Prospective Resources ('Best Estimates'): 2.82 mmboe



¹ Using exchange rate 1 AUD = 0.69 USD; Revenue (US\$) net to working interest and after payment of royalties.

² Based on the average Opex of WEL's three most recently drilled producing wells: White Hat 2003, 2005 & 2006 (WEL WI 75%).

³ See ASX announcement of 25 May 2020.

⁴ Combined oil and gas production is reported on an energy basis where 6,000 cubic feet of gas = 1 Barrel of oil equivalent (BOE).

OIL PRODUCTION SUMMARY

Winchester Energy Limited's (Winchester; ASX:WEL) gross and net Working Interest (WI) oil production for the quarter ended 30 June 2020 is shown below:

Oil Production (bo)*	June Quarter 2020	March Quarter 2020	December Quarter 2019	September Quarter 2019	June Quarter 2019
Gross Oil Production	28,108	34,269	39,461	29,771	18,913
WEL WI Share**	20,576	24,855	28,702	20,556	12,087

* Figures show oil production only - they exclude gas production. **Winchester is entitled to its Working Interest share of revenue after royalty payments to the oil and gas mineral rights owners.

Winchester's average daily WI oil production in the June 2020 quarter was 226 bopd.

To the end of the June 2020 quarter, Winchester's Permian Basin wells in Nolan County, Texas have produced a total gross 476,971 barrels of oil and 239 million cubic feet of gas.

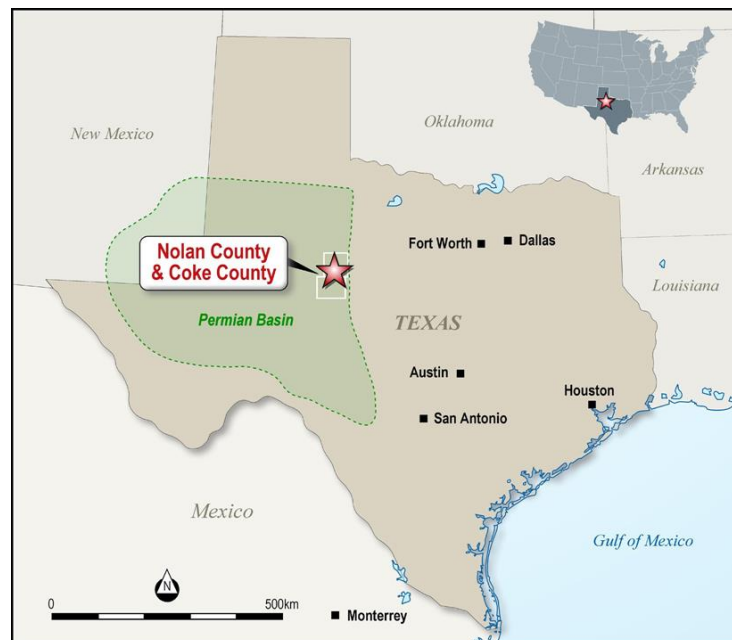


Figure 1: Location of the Company's acreage position in Nolan and Coke Counties, Texas, USA

REVENUE SUMMARY

Total WI sales revenue for the June 2020 quarter from oil and gas production was approximately A\$707,000⁵ (US\$488,000). The average sale price per barrel of oil was US\$27.50.

In response to the precipitous drop in oil prices during the quarter, on 15 May 2020 the Company took the prudent step of storing all production in temporary on-site storage facilities at its various wells, resuming oil sales on 1 June 2020 to take advantage of the rebound in oil prices and reduction of differentials. This action realized an additional US\$15 per barrel revenue for the Company for its May 15 - 31 production.

WTI oil prices have since partially recovered and appear to have stabilized above US\$40 per barrel since 1 July 2020 (Figure 2), greatly improving revenue for the Company.



Figure 2: West Texas Intermediate (NYMEX) crude oil price over 1 year⁶

EXPENDITURE RATIONALIZATION

During the COVID-19 crisis and the recent oil price collapse, Winchester acted promptly to increase efficiency, preserve revenue, reduce operations costs and reduce overheads. These actions have bolstered the company's viability in the current environment.

In addition, expenditure during the June 2020 quarter included residual drilling and completion costs carried over from the preceding quarter. These costs have now been fully absorbed which, together with a recovery in West Texas Intermediate (WTI) oil prices, is expected to result in a better cashflow performance in the current quarter.

⁵ Using exchange rate 1 AUD = 0.69 USD

⁶ Source: macrotrends.net

Lifting Costs (Opex)

Winchester has reduced its lifting costs significantly at its main producing wells - White Hat 2003, 2005 and 2006 - to US\$2.46 per barrel. This is 50% below the average lifting cost of the Parsley Peer Group⁷ as shown in Figure 3.

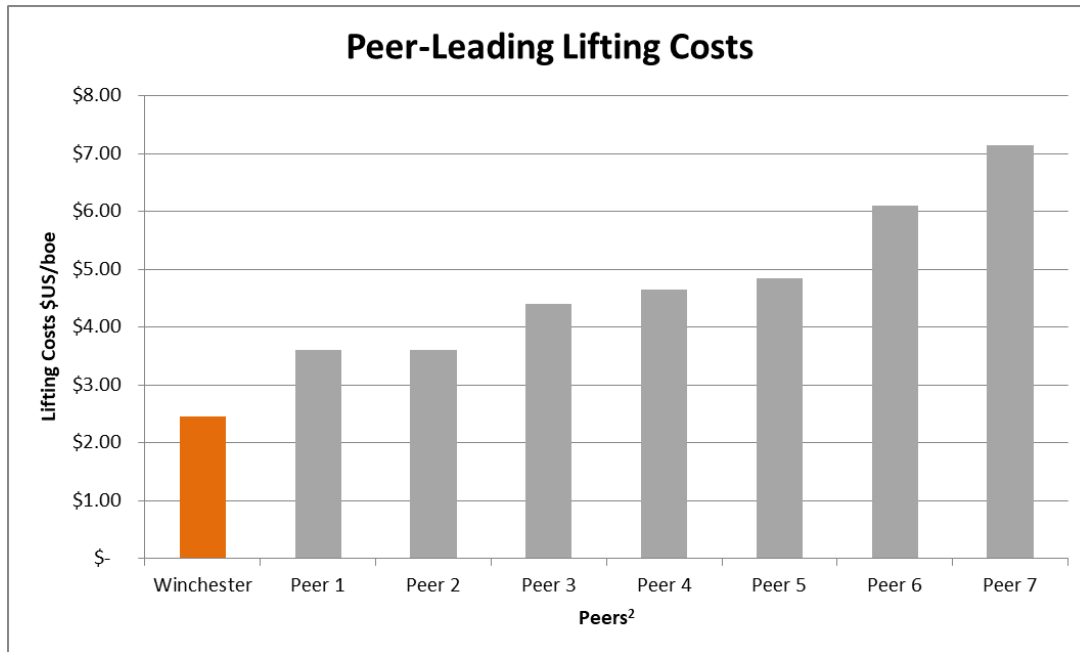


Figure 3. Permian Basin Lifting Costs (Data Source: Parsley Energy Presentation – Goldman Sachs Global Energy Conference, Jan 2020).

Lifting Costs, or operating expenses (Opex), include all direct costs to produce oil from wells. See ASX announcement of 11 June 2020 for further details.

Development Costs (Drilling and Completion)

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

⁷ Peers include PE, CDEV, CXO, FANG, LPI, MTDR, PXD (all Permian Basin operators)

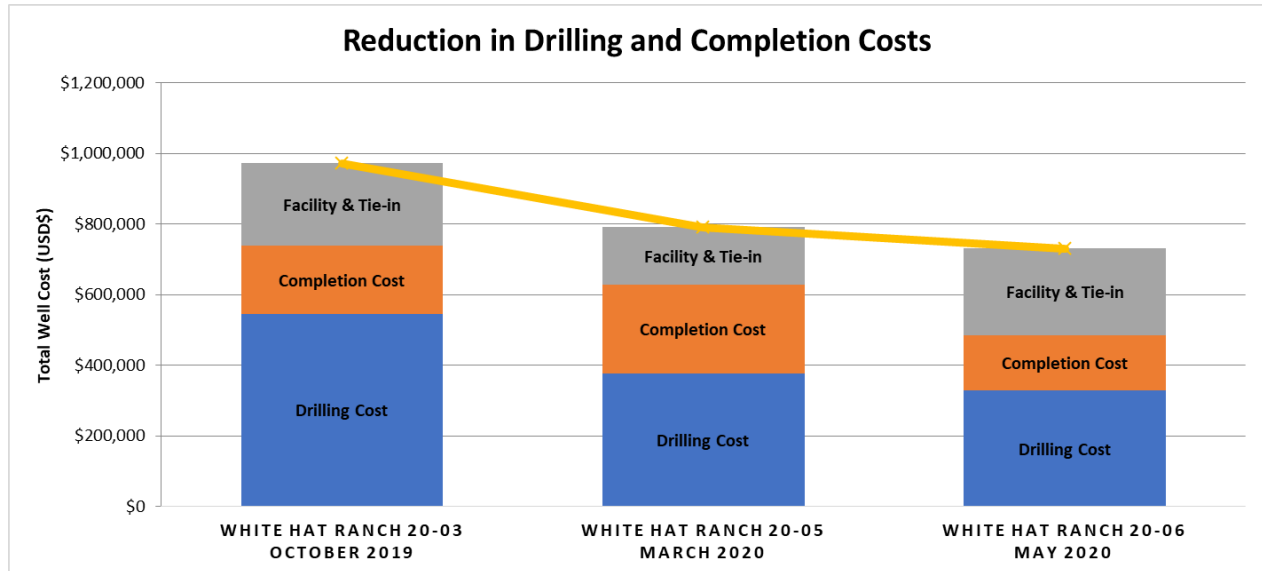


Figure 4: Reduction in Development Costs - WEL Operated Wells

In line with recent efficiency and cost reduction measures, Winchester has driven a 23% reduction in development costs. Figure 4 illustrates the relative change of development costs in recent drilling, culminating in the White Hat 2006 well (completed March 2020).

Winchester’s Development Costs are US\$10.51/boe reflecting the high-quality nature and commerciality of Winchester’s acreage as well as the advantage of developing shallow conventional sand-dominated opportunities over more complex horizontal-drilling shale plays.

RESERVES AND RESOURCES

During the June 2020 quarter the Company was pleased to be able to book 1.7 million barrels of oil equivalent (mmboe) in 3P Reserves along with 6.7 mmboe in Contingent Resources and a further 2.8 mmboe in Prospective Resources. In a significant development for the Company, the combined ‘Best Estimate’ Resources represent a 49% increase from the previously announced Resources.

The Reserves and Resources Reports were commissioned by Winchester and conducted by Texas-based independent consultant Kurt Mire of Mire & Associates Inc (MAI), in accordance with the definitions and guidelines set out by the United States Securities and Exchange Commission (SEC) and Petroleum Resources Management System revised in 2018 and endorsed by the Society of Petroleum Engineers.

Table 1 (following) provides MAI’s Reserve and Resource assessment of Winchester’s net interests in its Nolan County, Texas acreage as of 31 December 2019. Further details can be found in the ASX announcement of 25 May 2020.

Reserves - WEL Net Interests - Nolan County, 31 December 2019			
Category	Net Reserves		BO equiv. (mboe)
	Oil (mBO)	Gas (mmscf)	
Proved Developed Producing (PDP)	179	75	192
Proved Developed Not Producing (PDNP)/Shut In	79	159	105
Proved Undeveloped (PUD)	131	195	164
Total Proved Reserves (1P)	389	428	461
Probable Undeveloped	299	470	377
Total Proved & Probable Reserves (2P)	688	898	838
Possible Undeveloped	671	862	815
Total Proved, Probable & Possible Reserves (3P)	1,359	1,760	1,653

Table 1a – WEL Net Reserve Estimates

Contingent Resources - WEL Net Interests - Nolan County, 31 December 2019			
Category	Net Contingent Resources		BO equiv. (mboe)
	Oil (mBO)	Gas (mmscf)	
Contingent Resources (Low Estimate; 1C)	1,895	3,424	2,466
Contingent Resources (Best Estimate; 2C)	4,709	12,108	6,727
Contingent Resources (High Estimate; 3C)	12,029	39,523	18,571

Table 1b – WEL Net Contingent Resources Estimates

Prospective Resources - WEL Net Interests - Nolan County, 31 December 2019			
Category	Net Prospective Resources		BO equiv. (mboe)
	Oil (mBO)	Gas (mmscf)	
Prospective Resources (Low Estimate; 1U)	1,662	1,006	1,830
Prospective Resources (Best Estimate; 2U)	2,519	1,810	2,821
Prospective Resources (High Estimate; 3U)	3,888	3,296	4,437

Table 1c – WEL Net Prospective Resources Estimates

Notes:

- Reserves are stated net to Winchester's working interest and after deductions for royalty payments.
- All reserves estimates were prepared using deterministic methods. All resource estimates were prepared using probabilistic methods. All reserves aggregation was performed by arithmetic summation. All resource aggregations were performed probabilistically.
- "bbl(s)" means barrel(s); "bopd" or "boepd" means barrels of oil per day and barrels of oil equivalent per day, respectively
- "boe" means barrels of oil equivalent. Winchester reports boe using a gas to oil conversion based on equivalent thermal energy, i.e. 6000 cubic feet of gas = 1 barrel of oil
- "m" prefix means thousand; "mm" prefix means million; "scf" means standard cubic feet
- Production quantities are measured at the leases via a sales meter (gas) or in oil storage tanks.

EXPLORATION & DEVELOPMENT OPERATIONS

Mustang and Lightning Well Summary

Well ID	Drilled	Formation	WEL WI	Status
Mustang Oil Field				
White Hat 2002	Apr 2017	Strawn	50%	Producing
White Hat 2003	Mar 2019	Strawn	75%	Producing
White Hat 2004	Oct 2019	Strawn	100%	Awaiting re-completion
White Hat 2005	Aug 2019	Strawn	75%	Producing
White Hat 3902	Dec 2019	Strawn	50%	Shut-in due to low oil price
White Hat 2006	Jan 2020	Strawn	75%	Producing
Lightning Oil Field				
Arledge 1602	Jul 2019	Cisco Sands	100%	Producing
McLeod 1703	Dec 2019	Cisco Sands	100%	Awaiting gas tie-in

Oil Field Development and Recompletion Opportunities

In December 2019, the company commenced a 3D seismic reprocessing program covering the bulk of Winchester's Nolan County holdings and focusing on improving imaging of the Strawn and Cisco intervals.

Re-mapping of key geologic horizons in the company's leases is underway and has already **added clarity to the understanding of the configuration of the Lightning and Mustang fields, while also identifying several new prospects.** This work has also outlined several prospective intervals within existing wells with potential for re-entry and completion. The identification of additional potential productive intervals in existing wells presents a highly attractive opportunity to increase oil production at minimal cost.

White Hat 2004 Re-completion

Winchester, as operator, is planning to commence re-completion activity the first week of August 2020 at its White Hat 2004 well within the Company's Mustang Oil Field.

The program is designed to test the Cisco Sand at a depth of 4,400 ft. This follows a detailed review of wireline logs which indicated the presence of 54 gross feet of potential oil-bearing Cisco Sand in the well, including 35 ft of interpreted net oil pay with an average porosity of 13%.

The Cisco interval in White Hat 2004 will initially be perforated, acidized and swabbed. Dependent on the presence of oil, the interval may also be fracture stimulated prior to being placed on production. The program is anticipated to cost approximately US\$75,000.

The Cisco Sands have been a significant oil producer in the region with Winchester currently producing oil from this interval in its Arledge 1602 well.

Additional Re-completions

In addition to the planned program at White Hat 2004, detailed assessments of well log data and new 3D seismic interpretation have identified several opportunities for completions in currently untested zones in existing wells. Potential pay zones have been identified in several wells in formations including the Fry Sands, Cisco Sands and sands within the Three Fingers Shale (TFS). Several of these re-completions, if successful, have considerable commercial implications given the lateral extent of the formations as well as the high availability of historic wells for re-entry.

Winchester is in the process of designing and prioritizing these proposed re-completions.

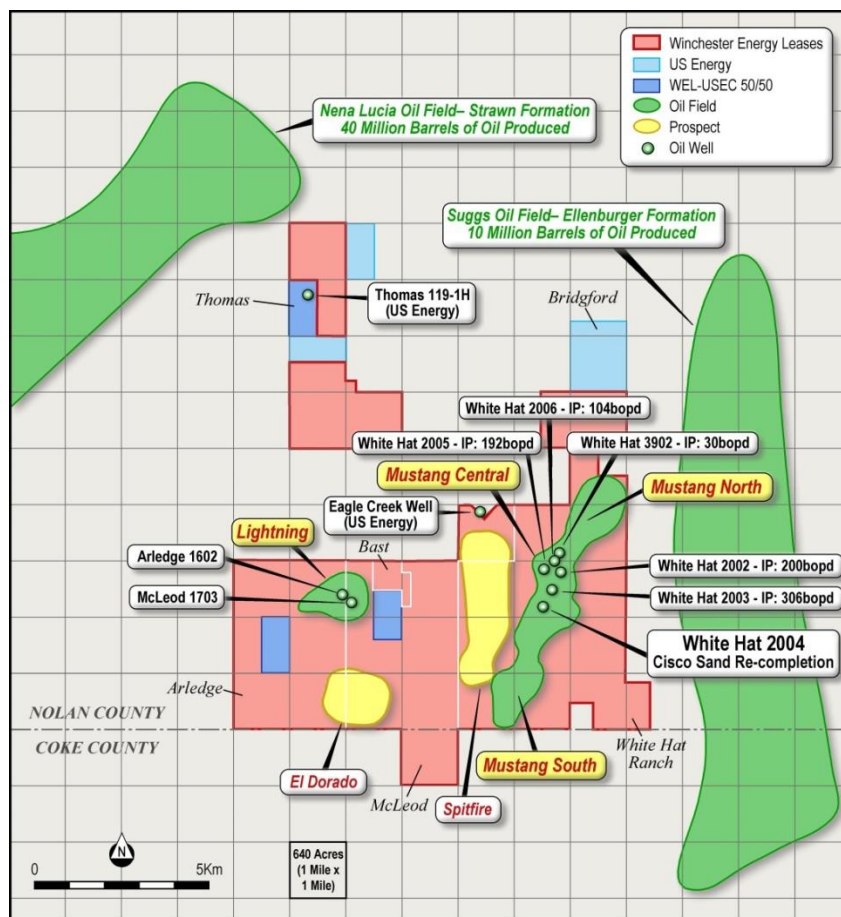


Figure 5. Winchester Leases - Prospects and Wells

In addition to the re-completion program, the recent pause in drilling activities has allowed the Winchester technical team to review and assess several new project/play opportunities emerging from the low oil price environment. Winchester is progressing several discussions and will inform the market if and when any transaction is completed.

Gas Sales

Winchester is presently connecting four more of its wells to the local gas gathering system. Current oil producing wells White Hat 2005, White Hat 2006 and Arledge 1602 - along with McLeod 1703 (currently shut-in) are to be tied-in. Testing has previously confirmed that gas from these wells has a high associated liquids content, which attracts a premium price.

The tie-in to the gas sales line will commence at McLeod 1703 at an estimated cost of US\$5,000. During testing, this well flowed gas at a rate of 100 thousand cubic feet per day (mcfpd). With the high quality gas attracting a premium price of between US\$4-US\$5/mcf, payback is anticipated within 14 days. Tie-in to sales of the remaining wells will follow McLeod 1703.

OIL FIELD DEVELOPMENT AND EXPLORATION UPSIDE

In just over a year Winchester has significantly expanded its production base and added two new producing horizons, the Fry Sand in the Strawn Formation (Mustang Oil Field) and the Cisco Sands (Lightning Oil Field).

Within Winchester's prime lease position of approximately 18,440 acres along the eastern shelf of the Permian Basin in central west Texas, USA, there are numerous productive units with a long established history of oil and gas production.

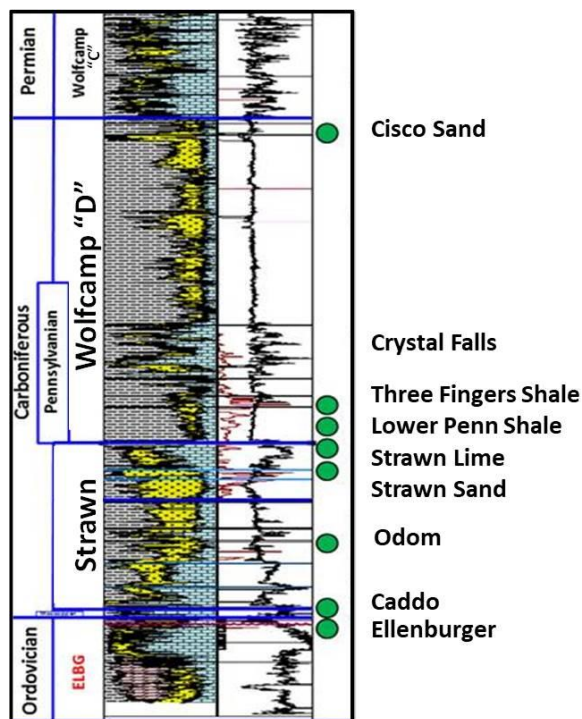


Fig 6. Stratigraphic Column – East Permian Basin

The Eastern Shelf of the Permian contains several vertically-stacked oil productive units (vertical pay). The recent results from the Strawn and the Cisco Formations have proved that the Winchester leases hold significant potential at several formation levels.

The younger and shallower Cisco Sands at the base of the Permian now appear to add another productive interval to Winchester's production.

As well as the Strawn and Cisco Formations, other prospective units include the, Wolfcamp 'D' high total organic carbon shale intervals, Three Fingers Shale, Lower Penn Shale and several intervals within the Canyon Sands package as well as the Odom sands and carbonates.

Winchester has identified, from both 3D seismic and well control, the Mustang and Lightning Oil Fields as well as the Spitfire and El Dorado prospects in the Strawn, Ellenburger and Cisco formations. In addition Winchester has some 20 additional locations identified for potential future exploration.

CORPORATE

Throughout the COVID-19 pandemic and collapse of global oil prices, Winchester has continued to optimise and streamline all elements of the organization, from field completion and production operations, vendor support and costs, to internal approval and reporting procedures and financial and accounting practices. This has served to reduce overheads and the cost of operations, making Winchester a more viable, robust business.

As of 30 June 2020, Winchester Energy had 688,130,824 ordinary shares on issue and cash reserves of approximately AUD\$3.5 million⁸.

During the June 2020 quarter, USD\$78,000 was paid in Director's fees and salaries. Reimbursement payments of USD\$29,000 were made to service entities associated with Neville Henry (the Managing Director of Winchester) for server and data room services and office rental in the United States. Provision of these services is made on a "pass through" basis, with no profit to Mr Henry or his associated entities.

Oil and Gas Leases Held as at 30 June 2020

Winchester's lease holding at the end of the June 2020 quarter is 18,440⁹ acres.

	WEL Interest	Lease/Prospect	Location
Held at end of quarter			
	75%	White Hat Ranch	Nolan County Texas
	100%	Bridgford Ranch	Nolan County Texas
	100%	Thomas Ranch	Nolan County Texas
	50%	Thomas-US Energy	Nolan County Texas
	100%	McLeod	Nolan County Texas
	50%	McLeod-US Energy	Nolan County Texas
	100%	Arledge	Nolan County Texas
	50%	Arledge-US Energy	Nolan County Texas
	100%	Coke	Coke County Texas
	92%	Bast	Nolan County Texas
Acquired during the quarter	100%	Hurricane	Nolan County Texas
Disposed during the quarter	-	-	-

This announcement has been approved for release by the Board.

⁸ Using exchange rate 1 AUD = 0.69 USD (30 June 2020)

⁹ The Company's net acreage position varies modestly in accordance with earned interests in drilling units of the current operations.

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 Winchester, the Directors and management of Winchester. These risks, uncertainties and assumptions could cause actual results to differ materially from those expressed in any forward-looking statements. Winchester 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. Winchester 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.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

WINCHESTER ENERGY LIMITED (ASX CODE: WEL)

ABN

21 168 586 445

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (..6.months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	223	1,701
1.2 Payments for		
(a) exploration & evaluation (if expensed)	(432)	(1,905)
(b) development	(287)	(1,673)
(c) production	(189)	(453)
(d) staff costs	(151)	(355)
(e) administration and corporate costs	(78)	(198)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	4
1.5 Interest and other costs of finance paid	(3)	(7)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(917)	(2,887)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation (if capitalised)	-	-
(e) investments	-	-
(f) other non-current assets	-	-

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (..6.months) \$USD'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (Lease Liability)	(28)	(55)
3.10	Net cash from / (used in) financing activities	(28)	(55)

4.	Net increase / (decrease) in cash and cash equivalents for the period	USD	USD
4.1	Cash and cash equivalents at beginning of period	3,321	5,416
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(917)	(2,887)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(28)	(55)

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (..6.months) \$USD'000
4.5	Effect of movement in exchange rates on cash held	62	(36)
4.6	Cash and cash equivalents at end of period	2,438	2,438

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$USD'000	Previous quarter \$USD'000
5.1	Bank balances	2,438	3,321
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,438	3,321

6. Payments to related parties of the entity and their associates

6.1	Aggregate amount of payments to related parties and their associates included in item 1	107
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

**Current quarter
\$USD'000**

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities	Total facility amount at quarter end \$USD'000	Amount drawn at quarter end \$USD'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$USD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	917
8.2 Capitalised exploration & evaluation (Item 2.1(d))	-
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	917
8.4 Cash and cash equivalents at quarter end (Item 4.6)	2,438
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	2,438
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	2.66
8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:	
1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: Item 8.7 is greater than 2.	
2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: Item 8.7 is greater than 2.	
3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: Item 8.7 is greater than 2.	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date:31 July 2020.....

Authorised :By The Board.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.