

# Strike Energy Limited Quarterly Report

Q3 - 2017



# KEY HIGHLIGHTS Q3 2017

## Technical Success

- Strike declared Technical Success and the producibility of the Vu Upper coal seam in the Klebb area.
- Gas content of the Vu Upper coal was defined at 6.1 – 6.0m<sup>3</sup>/t.

## Orica Gas Sales Agreement

- Strike negotiated a revised gas sales agreement for 64PJ at improved terms subject to its Phase 1 FID.
- Orica agreed to extend the repayment date of the \$2.5mln loan from 2018 to 2021 with certain conditions surrounding converting the loan to equity after 1<sup>st</sup> September 2018.
- Orica withdrew their claim for the \$7.5mln repayment made against Strike in June 2017.

## Jaws Project Funding Complete

- Strike successfully secured \$9.1mln following an oversubscribed placement that underpins the capital required for the Jaws 1 Vertical & Horizontal wells.

## PACE Application

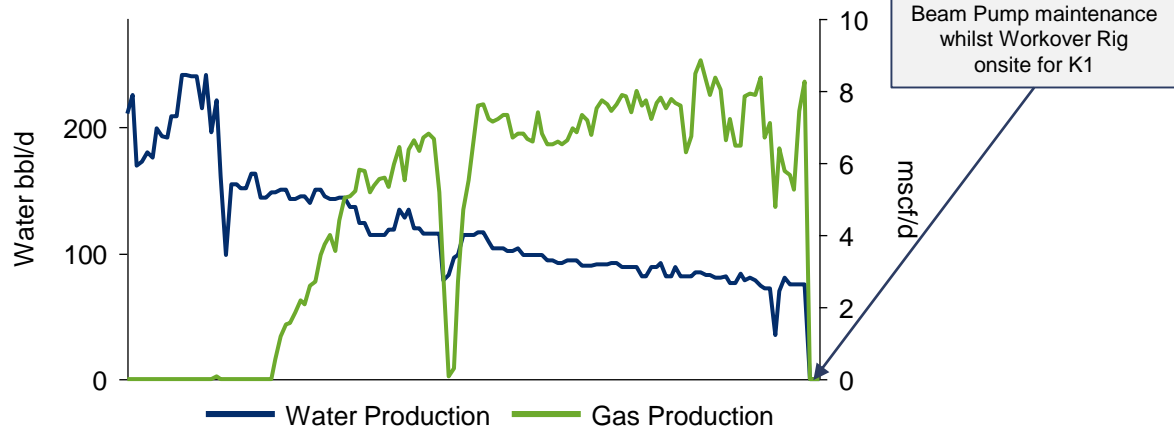
- Strike submitted an application for a grant as part of the PACE Round 2 program; with results expected in late October.

## Corporate & Organisation

- Relocation of Strike head office to Adelaide supported by a \$990,000 grant from SA Govt Economic Attraction Fund for the creation of 85 jobs by 2021.
- Recruitment of new CFO: Justin Ferravant from Santos.
- Andrew Seaton and Stuart Nicholls (MD) appointed to Board of Directors.



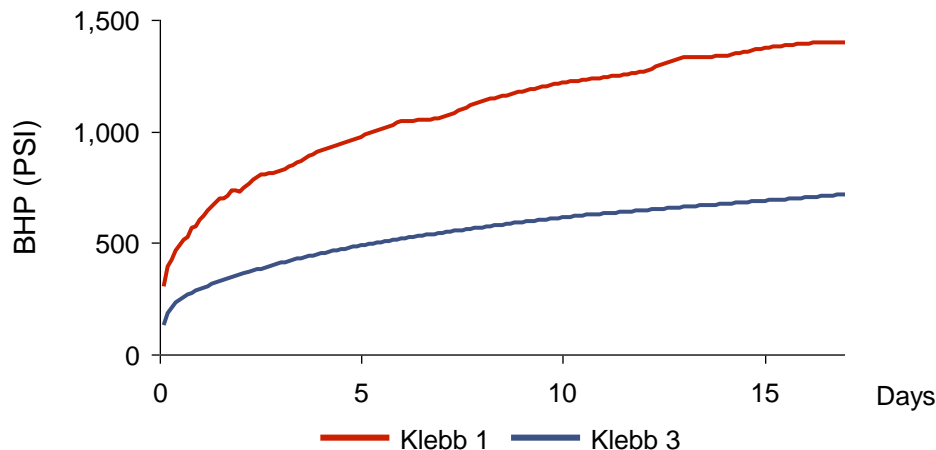
## Klebb 2 Performance Post Recompletion



## K2 Performance

- Steady rates of gas ~8 mscf/d were observed with declining water production.
- Some downtime impact due to generator change out to suit new pumps and campaigned Beam Pump maintenance whilst workover rig was mobilised for K1.
- Continued operations required for shrinkage observation and potential restoration of permeability.

## Pressure Build Up Charts



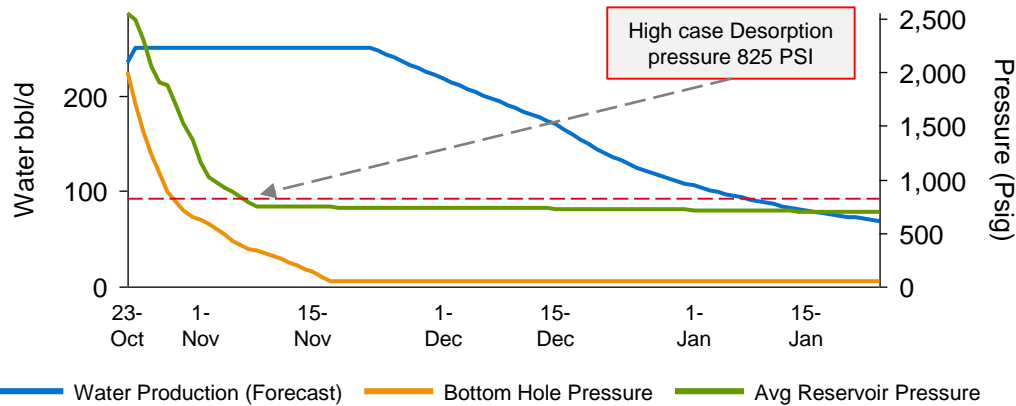
## K1 & K3 Permeability & Skin Tests

- K3 results confirm only a portion of the originally fractured area is in communication with the well bore. Due to the artificial boundary around the depleted area, the pressure build up is prolonged. This is a classic signature of skin formation and consistent with the flat gas production.
- K1 showed a more aggressive build-up in pressure. This is inconsistent with the size of the fracture placed in the Vu Upper compared to K3. It is suspected that cross-flow from the Vu Lower (which had a much larger frac) has been charging the well bore above the plug. This may also explain the lack of declining water rates in K1 Vu Upper compared to K2 & K3. *(continued on slide 4)*

# K1 RECOMPLETION

## Klebb 1 Vu Lower drawdown plan

Target drawdown of fluid over pump = 10% per day



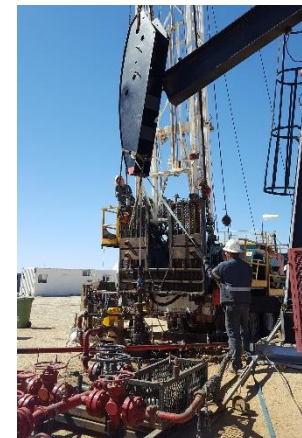
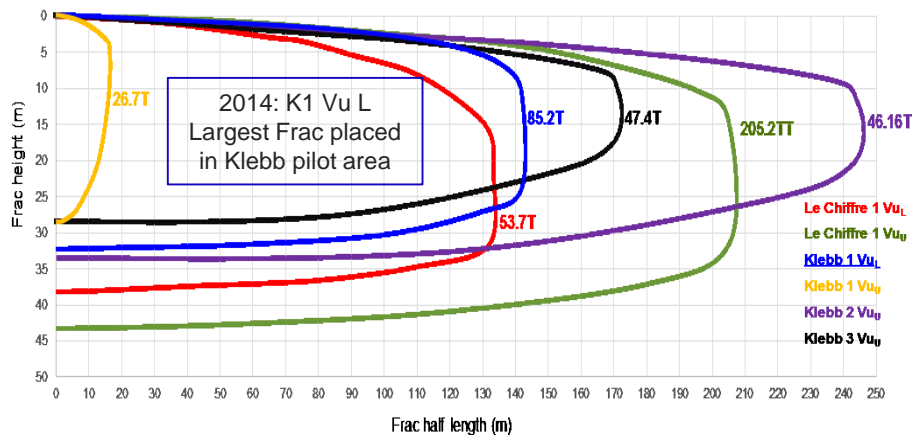
## Operations Summary

- Planned Time: 9 days – Actual: 7 days.
- Successful execution program coming in 18% under budget.

## Sub-surface Interpretation

- Confirmation of excellent fracture placement gives confidence for fracture stimulation program on Jaws-1.
- The K1 theory of Vu cross communication may mean that the Vu Lower is already partially dewatered. This is evidenced by the most recent observed pressure in the well bore of 1,936psig which is some 971psig less than original reservoir pressure when the well was originally tested in 2014.
- The Vu Lower may give a refreshed expectation of reservoir performance. However, soaking time of fracturing fluid effects still yet to be understood.

## Klebb & Le Chiffre Frac Placement & Size



# FUTURE OPERATIONS



K1 Beam Pump –  
Horse's Head Reinstall

## Re-purposing of K4 and K3 for Jaws

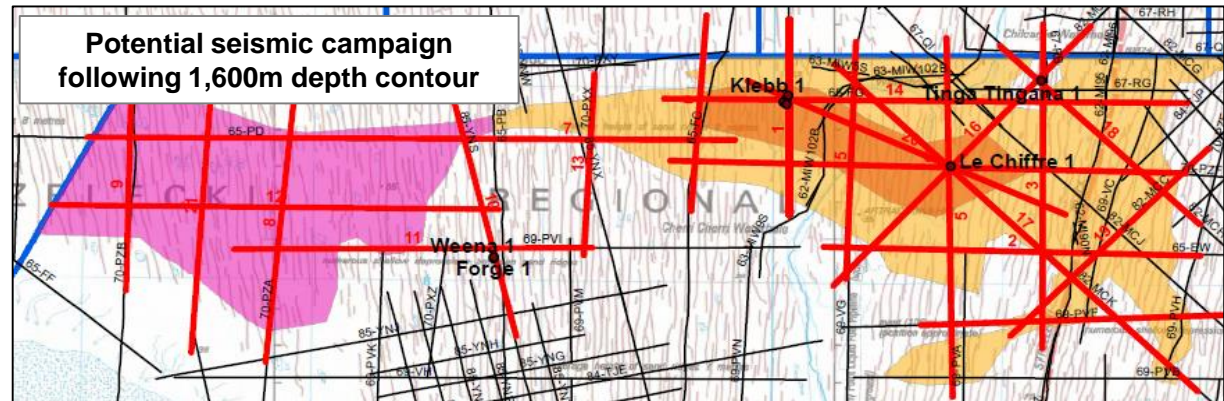
- K4 and K3 equipment will begin to be removed, refurbished and re-purposed to reduce costs for the Jaws-1 wells by reusing Variable Speed Drives, instrumentation, piping and valves, etc. **Capturing Savings of ~\$570,000**

## Retrieval of ESP from K4

- K4 will be worked over and perforations isolated in preparation for Microseismic monitoring of the Jaws 1 Horizontal fracture stimulation.
- The ESP will be retrieved and returned to the factory for tear down and diagnostics to understand performance issues prior to Jaws 1.
- The reuse of the power & control cable will deliver a saving of \$65k.

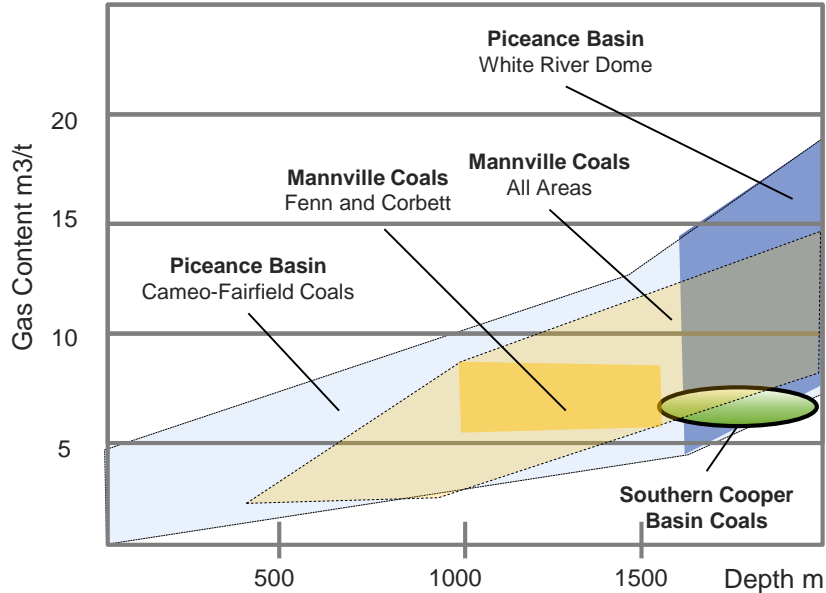
## Scoping Seismic Campaign to Expand Resource out to 1,600m contour

- Given the constraints of the existing wells and legacy seismic, Strike is scoping out an opportunity to shoot a seismic campaign in 2018 that would allow for the expansion of the existing resource.



# REFINED ANALAGOUS PLAYS

## Comparative Gas Saturations: Deep Coal Plays



	Western Canada Basin Alberta	Piceance Basin Colorado	Southern Cooper Basins Gas Project
	Mannville / Fenn Area	White River Dome	Weena Trough
<b>Age</b>	Cretaceous	Cretaceous	Permian
<b>Depth (m)</b>	1,300 - 1,600m	1,645 - 2,480m	1,900 - 2,100m
<b>Coal Type</b>	Vitrinitic-Inertinitic	Vitrinitic	Inertinitic to Vitrinitic
<b>Coal Matrix Perm (mD)</b>	0.2-1.5 mD	0.2 mD	1-2.5 mD
<b>Fracture/Cleat Perm (mD)</b>	~7 mD	V. High (10s-100 mD)	5-7 mD
<b>Coal Porosity (%)</b>	5-6%	Not Reported	Est. 1-2%
<b>Initial reservoir pressure (psi)</b>	~724	2100-3250 (depth dep)	2893
<b>Indiv Seam Thickness (m)</b>	1-5	1-2	15-30
<b>Lateral Continuity Seams</b>	Moderate-High	High	High
<b>Net Coal Thickness (m)</b>	~15	12	60
<b>Max Reported Well Rate</b>	1 - 10 mmcf/d	3.1 mmcf/d	Unknown
<b>Gas Content (m3/ton)</b>	6-8	15-19	6.1
<b>Relative Saturation</b>	Undersaturated	Saturated	Undersaturated

Deep CSG has been commercially proven in other unique geological settings. This was made possible through the application of technology and advanced drilling techniques.

### Key characteristics that are analogous to the Southern Cooper Basin coals

#### Mannville Formation

- High inertinite which evolves into high levels of horizontal permeability
- Good coal thickness leading to good production rates and ultimate recoveries after application of horizontal technologies

#### White River Dome

- Tight coal matrix, but excellent fracture permeability resultant from linears (seen in Klebb). Also at Klebb, fracture and cleating network seen to line up with linears.

Common to both Mannville & White River is the relaxed stress state resulting in more 'open' fracture network. This low stress state is also seen in the Southern Cooper which gives rise to its unique geological setting.



CBM producibility from the Mannville coals in Alberta Canada: Gentzis, Goodarzi, Cheung, Laggoun-Defarge, 2007

# JAWS CONTRACTING UPDATE

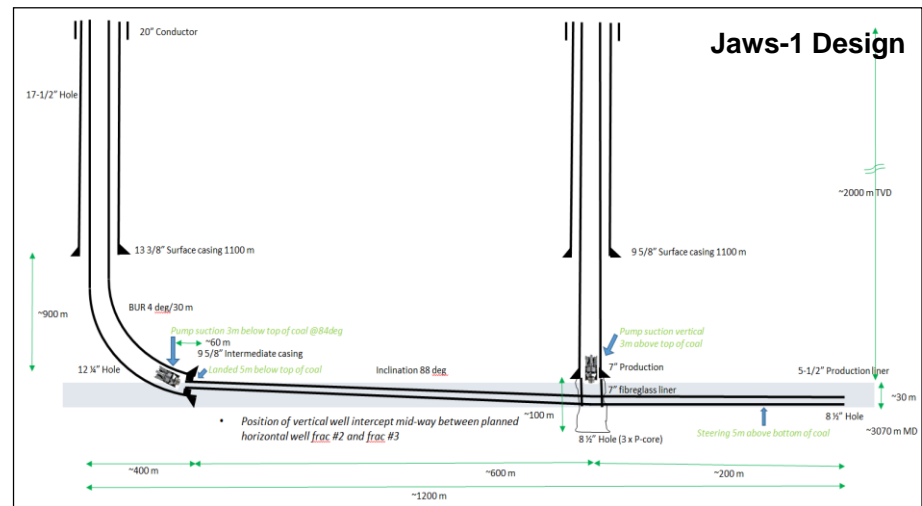
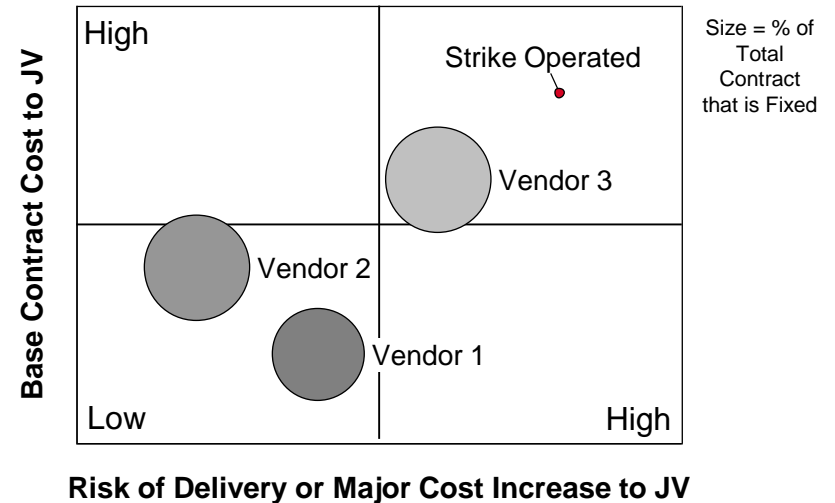
Strike as operator of PEL96 has entered into defined negotiations with a preferred vendor for the integrated delivery of Jaws-1.

Strike reached this decision after assessing multiple proposals and comparing them on a cost & risk basis versus a self-operated version.

Strike's objectives from seeking proposals from integrated service providers was to:

1. Eliminate catastrophic execution risk where possible;
2. Engage an integrated company to provide drilling and fracture stimulation delivery to ensure a robust outcome;
3. Reduce number of interfaces, handovers and communications channels for JV to manage;
4. Reduce headline costs through vendor bundling multiple services and increasing overall take from job;
5. Build a partnership with a company willing to develop longer term learnings in deep CSG.

## Operator Assessment Matrix



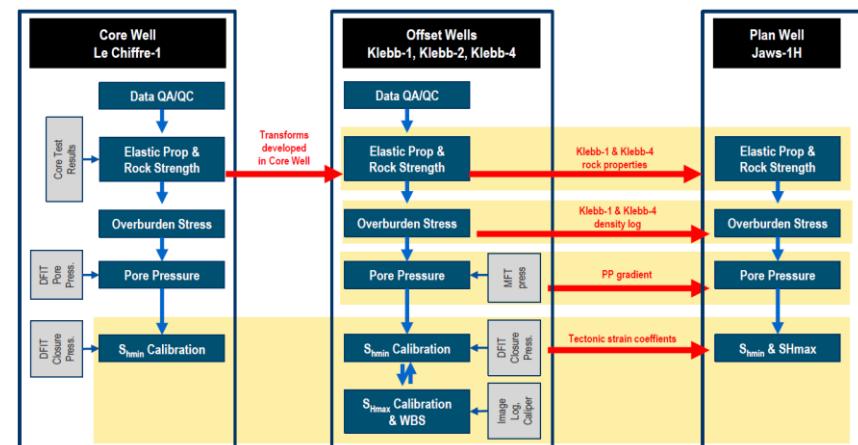
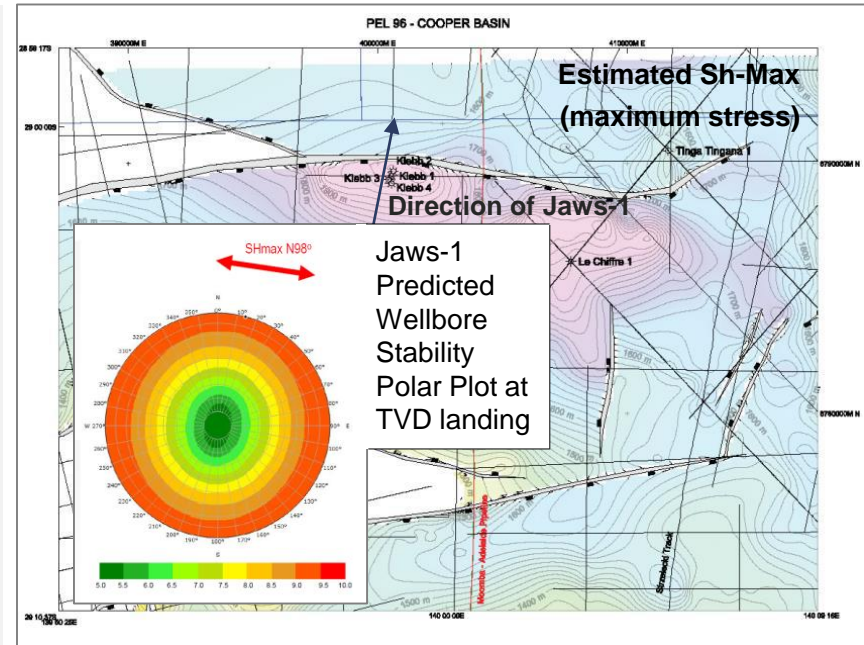
# JAWS GEOMECHANICS STUDY COMPLETE

In preparation for Jaws, Strike commissioned Schlumberger to complete a geomechanical stability report for Strike to understand drilling horizontally in the Patchawarra coal.

Calibrated geomechanical properties from Klebb and Le Chiffre data concluded that:

1. The Jaws -1 horizontal well bore trajectory is in the direction of least stress and the planned fracture propagation path is inline with its optimal implementation direction. (perpendicular to least stress)
2. The risk of bore hole collapse is considered low for the horizontal section of Jaws-1 well.
3. The stress regime within the coals is considered normal.

**These results confirm the viability of the planned Jaws wells and increase Strike's confidence in successful project outcome.**





## Board of Directors

John Poynton (Chairman)  
Jody Rowe  
Andrew Seaton  
Stuart Nicholls (MD)  
Tim Goyder

## Corporate / Registered Office

Unit 1 31-35 George St,  
Thebarton Adelaide SA 5031

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E: [strike@strikeenergy.com.au](mailto:strike@strikeenergy.com.au)  
W: [www.strikeenergy.com.au](http://www.strikeenergy.com.au)

## Securities Exchange

ASX: STX

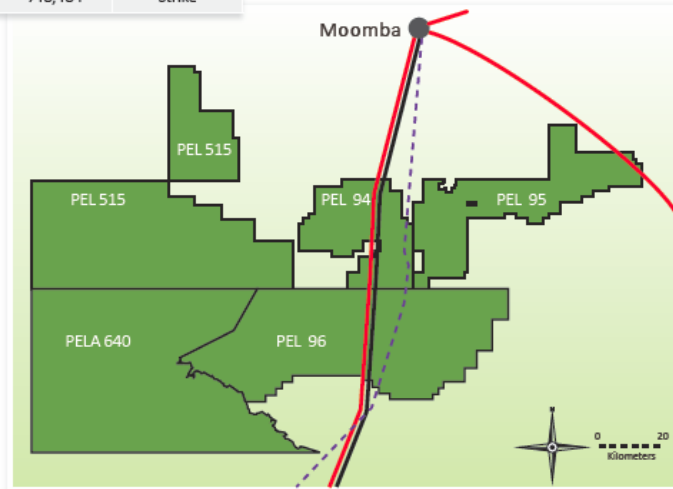
## Securities on Issue

Shares: 1,094,640,299  
Options: 16,200,000  
Performance Rights 6,800,000

- Spend for the quarter on operations was **\$2.6 mln** and was centered around the piloting of the Klebb wells in achieving Technical Success.
- Strike completed negotiations with Orica and entered into a revised gas sales agreement for 64PJ at improved terms and subject to its Phase 1 FID.
- Strike is continuing to draft the payment deed from the Economic Investment Fund South Australia for the \$990,000 grant as announced on the 4<sup>th</sup> of September 2017.
- Strike successfully placed 130mln new shares in a oversubscribed capital raising event, raising \$9.1mln for forward operations.
- The joint venture activities and drilling of Jaws-1 are fully funded.
- Strike made an application for the PACE Gas Grant Program, round 2 with results expected by end of October 2017.
- **The Company completed the quarter with \$10.8 mln of cash on hand at 30<sup>th</sup> September 2017.**

# STRIKE ENERGY: LICENCE INFORMATION

Permit	STX Working Interest	STX Net Acres	Operator
PEL 96	66.67%	443,880	Strike
PEL 95	50%	160,248	Beach Energy
PEL 94	35%	77,925	Beach Energy
PELA 640	100%	850,786	Strike
PEL 515	100%	748,484	Strike



- PEL 96 Phase One Area
- Gas Pipeline
- Oil Pipeline
- Strzelecki Track
- Strike Phase One Area wells drilled
- Strike Wells Drilled
- PEL 96 Offset Wells



## Competent Persons Statement

The information in this report that relates to appraisal results is based on information compiled or reviewed by Mr A. Farley who holds a B.Sc in Geology and is a member of the Society of Petroleum Engineers. Mr A. Farley is Manager Geoscience for the Group and has worked in the petroleum industry as a practicing geologist for over 15 years. Mr A. Farley has consented to the inclusion in this report of matters based on his information in the form and context in which it appears.

## Igessi Consulting

Tony Cortis (M.Sc. Geology) who brings over 28 years of industry experience with Shell International. He has extensive technical and delivery experience in all three Unconventional Resource play types: tight clastic, shale and coal bed reservoirs. He has actively worked on CBM projects in the Bowser Basin, the Western Canada Sedimentary Basin and in the Ordos Basin of China.

Mr Cortis has consented to the inclusion of his reviews and validation with relation to the reservoir models from within PEL96.

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

### Name of entity

**STRIKE ENERGY LIMITED**

### ABN

**59 078 012 745**

### Quarter ended ("current quarter")

**30 September 2017**

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(1,326)	(1,326)
(b) development	-	-
(c) production	-	-
(d) staff costs	(1,244)	(1,244)
(e) administration and corporate costs	(513)	(513)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	7
1.5 Interest and other costs of finance paid	(52)	(52)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	490	490
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,638)</b>	<b>(2,638)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	(11)	(11)

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(11)</b>	<b>(11)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	9,100	9,100
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(485)	(485)
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 (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>8,615</b>	<b>8,615</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	4,863	4,863
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,638)	(2,638)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(11)	(11)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	8,615	8,615
4.5	Effect of movement in exchange rates on cash held	(6)	(6)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>10,823</b>	<b>10,823</b>

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	9,020	3,624
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (share of JV bank accounts)	1,803	1,239
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>10,823</b>	<b>4,863</b>

6. <b>Payments to directors of the entity and their associates</b>	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	94
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

## Mining exploration entity and oil and gas exploration entity quarterly report

**8. Financing facilities available**

Add notes as necessary for an understanding of the position

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
5,800	5,699

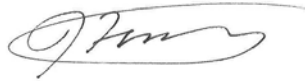
Lender	Interest Rate	Secured/Unsecured	Balance Outstanding at Quarter End
Orica Australia Pty Ltd	5.80%	Unsecured – convertible note	A\$2,500,000
Commonwealth Bank of Australia	5.90%	Secured against R&D refund from ATO	A\$3,199,000

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	2,417
9.2 Development	-
9.3 Production	-
9.4 Staff costs	1,408
9.5 Administration and corporate costs	327
9.6 Other (provide details if material)	(1,315)
<b>9.7 Total estimated cash outflows</b>	<b>2,836</b>

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/A			
10.2 Interests in mining tenements and petroleum tenements acquired or increased	N/A			

**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.



Sign here:

(~~Director~~/Company secretary)

Date: .....26 October 2017.....

Print name: .....Justin Ferravant.....

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.