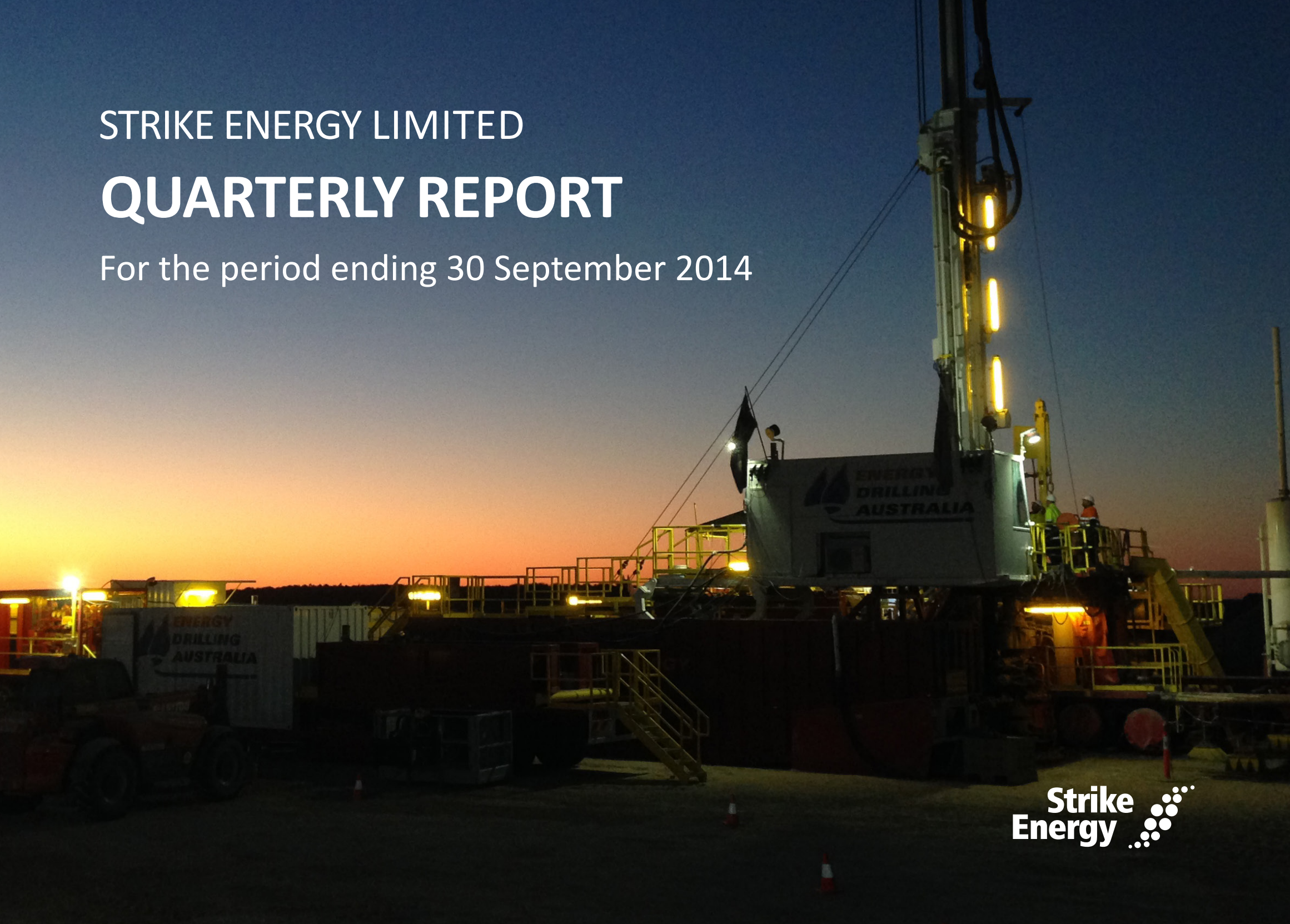


STRIKE ENERGY LIMITED

# QUARTERLY REPORT

For the period ending 30 September 2014



## September Quarter Performance Summary



Objectives	Key Achievements
Australian Operations	
Southern Cooper Basin Gas Project	<ul style="list-style-type: none"> <li>✓ Completed Le Chiffre, Klebb (PEL 96) and Davenport (PEL 94) fracture stimulation and initial production testing program LTI free.</li> <li>✓ Exceptional formation productivity observed, further testing underway to establish sustained gas flows to surface.</li> <li>✓ Planning commenced for next stage resource delineation and production optimisation testing.</li> <li>✓ Feasibility of a small scale gas processing and compression facility advanced.</li> </ul>
Strong Funding Position	<ul style="list-style-type: none"> <li>✓ Fully funded to meet current program commitments.</li> <li>✓ Continued interest in additional gas offtake.</li> <li>✓ Year ending 30 June 2014 R&amp;D claim submitted for \$5.8 million, proceeds expected in the coming weeks.</li> </ul>
US Operations	
US Assets	<ul style="list-style-type: none"> <li>✓ Finalised partial sale of Eagle Ford exploration acreage (US\$4.6 million received) with exposure to success on the balance of the Eagle Ford acreage.</li> <li>✓ Encouraging test results obtained in the Permian Basin.</li> <li>✓ US portfolio is net operating cash flow positive.</li> </ul>



## Managing Director Comments



During the September quarter the Company progressed towards the next stage of production testing at the Southern Cooper Basin Gas Project (SCBGP). Field operations are underway at the date of this report ahead of commencement of flow testing in November 2014.

The quarter also saw solid progress in the US with completion of the sale of 1,617 net acres in the Eagle Ford Shale. In the Permian Basin, a second Lower Clearfork Shale zone was successfully fracture stimulated at the Erwin Eoff # 3 well with a peak oil flow rate of 40 bbls per day being achieved from this single stage.

The Company has now reached a critical stage in the evaluation of the SCBGP. Having confirmed the presence of a highly productive, self-sourcing hydrocarbon reservoir system across extensive areas of the Southern Cooper Basin, the next key step is to understand the productive potential of the play. Establishing gas flows to surface will immediately position the project as one of the few new gas resources with the potential to supply gas at scale to the Eastern Australian gas markets within the next few years. Building on the work we have completed to date, I am very confident the Company's forward program will achieve this technical objective within the next two quarters.

The testing program involves the evaluation of a portfolio of five wells, four in PEL 96 (STX 66.6%) and one in PEL 94 (STX 35%). To this end, two additional appraisal wells in PEL 96 will be drilled and completed with flow testing of these wells to commence by the end of the December 2014 quarter. The portfolio of wells encompass a range of completions across the target Patchawarra coal seams and the testing program is specifically designed to achieve the technical objective of gas flow to surface. This multi well program will enable a comprehensive assessment of key reservoir parameters with lower risk than a single well test and will also provide a broad range of data which will accelerate subsequent production optimisation and commercial evaluation work.

During the quarter, the Company was pleased to be offered Block CO2013-B (now PELA 640, STX 100%) with final award anticipated once agreements with Native Title groups have been finalised. The permit includes an extension of the Weena Trough and a potential extension of the thick coals and hydrocarbon system encountered by the Le Chiffre and Klebb wells.

At quarter end the Company reported cash on hand of \$9.6 million. In addition the Company's R&D tax refund claim for FY 2014 of \$5.8 million has been finalised with payment anticipated in the coming weeks.

The Company is fully funded to complete the five well production testing program, to confirm proof of concept for the SCBGP ahead of production optimisation and resource delineation in the coming quarters.

David Wrench  
Managing Director



# Southern Cooper Basin Gas Project



Early in the quarter the Company concluded the initial production testing program at the Le Chiffre 1 and Klebb 1 wells in PEL 96 (STX 66.67%, EWC 33.33%) and demobilised the testing equipment from site. Fracture stimulation and testing operations were successfully completed LTI free and within budget. As previously reported, results from the program have confirmed that the coal formations are highly productive.

In PEL 94 (STX 35%, BPT 50%, SXY 15%), initial testing of the Davenport 1 well was successfully completed. A Patchawarra Vu coal zone was perforated and a small fracture stimulation treatment pumped. Coil tubing operations, including nitrogen pumping, were then undertaken to clean the wellbore and to artificially lift fluid out of the well. Encouraging hydrocarbon shows were observed via gas detector at surface throughout the duration of the nitrogen lift operations and an estimated 90% of the frac fluid was recovered during the flow back period.

A plug was then set and the Patchawarra Vm3 coal perforated. Based on the analysis of the data from the lower zone, the joint venture decided to proceed with flow testing of this zone without fracture stimulation using coiled tubing and nitrogen lift. Encouraging hydrocarbon shows were again observed at surface throughout the duration of the nitrogen lift operation.

A pumping completion has subsequently been run in the well and awaits surface equipment to recommence flow testing.

The Company's next technical objectives are to determine the reservoir pressure at which gas production commences (the critical desorption pressure), achieve sustained gas flows to surface by ongoing production testing in both PEL 96 and PEL 94 and obtain data on gas composition and formation water production volumes.

Planning and procurement for this next phase of production testing was completed during the quarter.

During the quarter, the Company was offered Block CO2013-B (now PELA 640, STX 100%), with final award anticipated once agreements with Native Title groups have been finalised. The permit contains an extension of the Weena Trough with the potential for an extension of the hydrocarbon system encountered by the Le Chiffre and Klebb wells.

## WHAT DO WE KNOW?



The results of the drilling and testing programs in PEL 96 and PEL 94 have confirmed the presence of **continuous, thick coals over an extensive area within the permits**. Furthermore, gas desorption measurements and analysis of core samples combined with gas shows observed during drilling and production testing confirm that these coals **form a very large, self-sourcing hydrocarbon reservoir system**.



Fracture stimulation of the coals is demonstrated to be very effective resulting from favourable rock properties and low in-situ stresses. **The coals' significant natural permeability combined with high net coal thickness result in a very productive reservoir system**.



Despite limited testing to date, **gas shows have been observed at all three wells with reservoir pressure reductions also achieved in each well**. Sustained pressure reduction necessary to initiate gas flow will require production of formation water through pumping operations.



# Southern Cooper Basin Gas Project

## December Quarter planned activities

The PEL 96 extended production testing program to be undertaken during the December quarter will include:

- Installation and commissioning of pumps and associated water and gas handling surface facilities at the Le Chiffre 1 and Klebb 1 wells;
- Drilling of two offset wells, Klebb 2 and Klebb 3 located approximately 200m NE and 200m SW of the Klebb 1 well respectively;
- Installation and commissioning of pumps and associated water and gas handling surface facilities at the Klebb 2 and Klebb 3 wells;
- Commencement of flow testing.

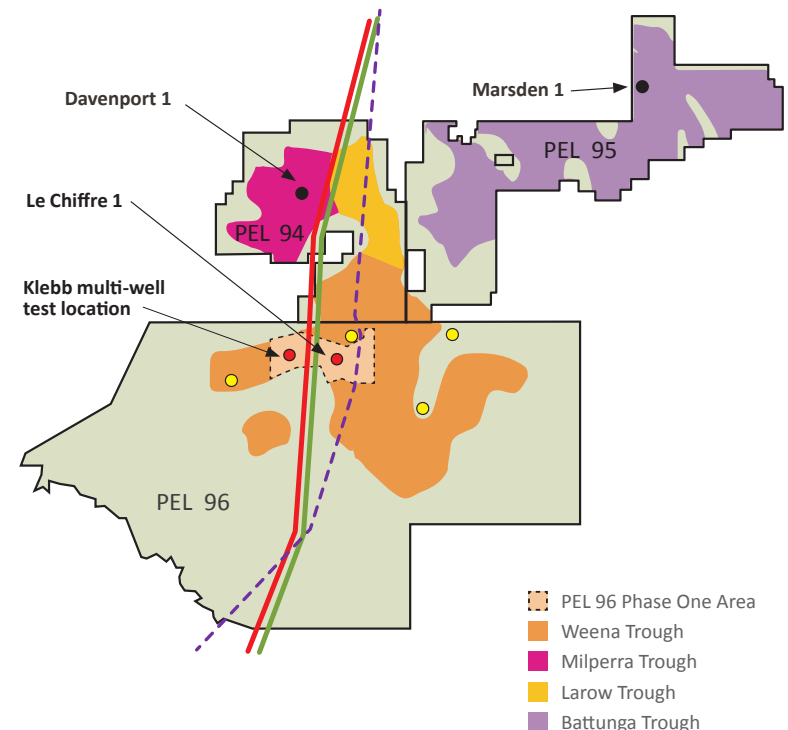
The PEL 94 program is expected to include the installation of surface equipment at the Davenport 1 well and commencement of flow testing.

By the end of 2014, the Company plans to have a portfolio of five wells undergoing production testing across all target Patchawarra coal seams with a range of completions as summarised in the table below.

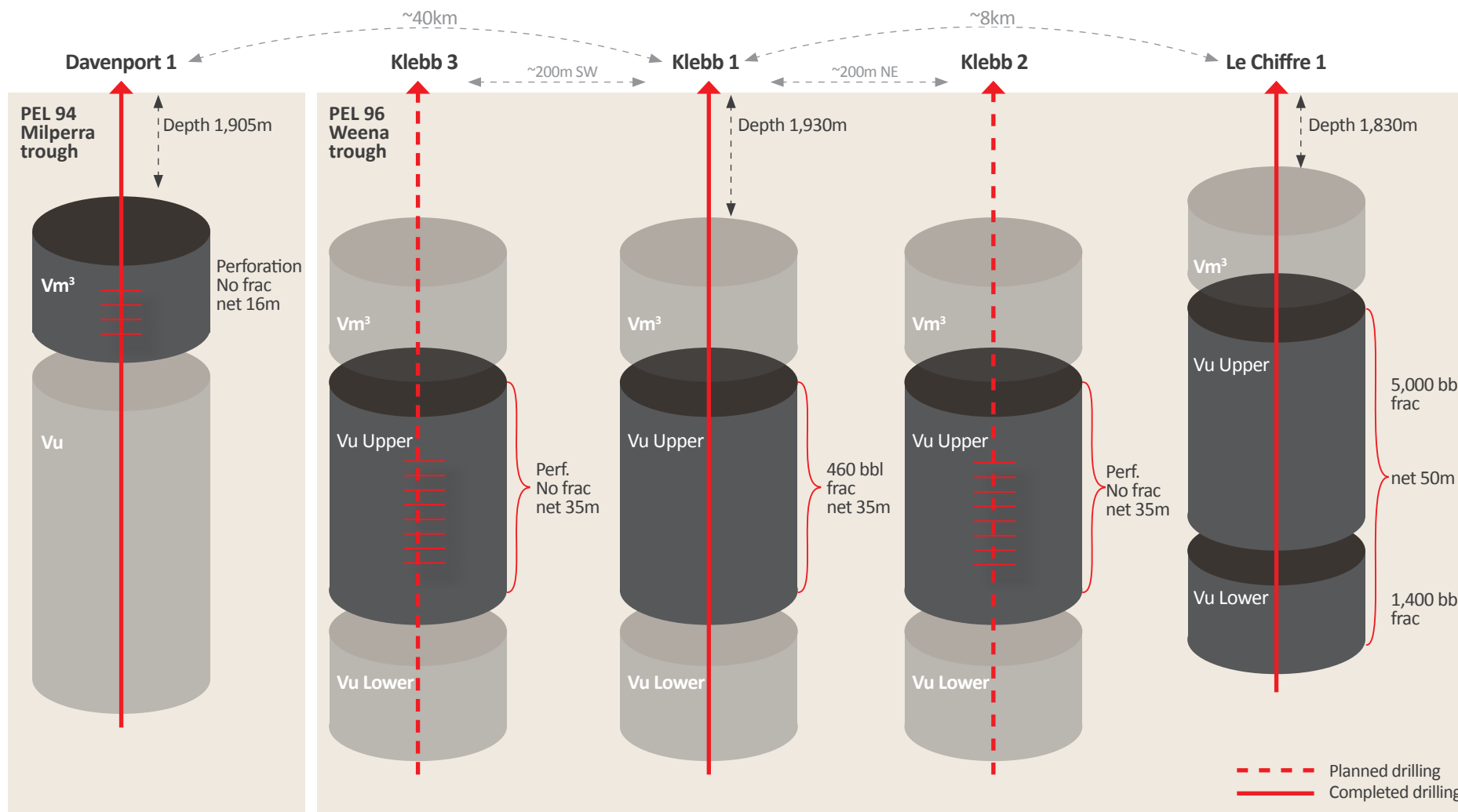
Well	Permit - Operator	Initial test zones	Net coal	Completion
Le Chiffre 1	PEL 96 - STX	Vu Upper & Lower	50m	Large frac
Klebb 1	PEL 96 - STX	Vu Upper	35m	Small frac
Klebb 2	PEL 96 - STX	Vu Upper	35m	Perforation only
Klebb 3	PEL 96 - STX	Vu Upper	35m	Perforation only
Davenport 1	PEL 94 - BPT	Vm3	16m	Perforation only

As at the date of this report, field operations are underway with EDA rig 3 having completed clean-out and installation of downhole equipment at Le Chiffre 1 with workover operations commenced at Klebb 1. Drilling, casing and completion operations at Klebb 2 and Klebb 3 should be completed by mid-December.

Surface equipment at the Le Chiffre and Klebb locations is on track to be installed and commissioned by early November 2014, with initial production testing to commence shortly thereafter. The testing program will be initially undertaken in a series of cycles at each well to allow flow rates and pressures to be observed in order to optimise the ongoing testing regime appropriate for each individual well. In the initial phase, flow rates and pressure drawdown will be conservatively managed to minimise potential for reservoir damage and to ensure steady progress towards initiation of gas production.



# Southern Cooper Basin Gas Project - Initial Test Zones



## US Exploration and Evaluation Activities

### Eagle Ford Shale, Eagle Landing Joint Venture (STX Interest 27.5%)

In the US, the Company completed the sale of 1,617 acres of our net Eagle Ford Shale holding and received payment of US\$4.6 million. Several wells located close to our core remaining lease position are due to be completed and production tested in coming months. These results will be important in assessing the potential of the balance of the Company's Eagle Ford acreage for future sale or farmout opportunities.

### Permian Basin (STX Interest 25%)

Peak oil flows of 40bbls per day from the testing of a single frac stage in the Lower Clearfork Shale at our Permian Basin project were achieved during the quarter. This well (Erwin Eoff #3) will now be completed in the Middle Clearfork carbonate reservoir and comingled production from both zones will commence in the coming quarter. These results are encouraging and are consistent with very commercial results being obtained by offset operators from horizontal, multi-stage frac completions in the equivalent Lower Clearfork shale zone. We now have production test data and a geological data set which demonstrates the presence of a large shale resource. Along with our joint venture partners, we are presently evaluating options for the monetisation of our investment, anticipated during the first half of next year.



## US Asset Portfolio

Following the completion of the sale of the Lavaca County acreage, Strike will continue to evaluate opportunities to monetise the remaining elements of the Company's US operations. As the portfolio of US assets currently generates net positive cash flow, any further divestment opportunity will be evaluated in light of the potential upfront sale consideration compared to the value of the asset's future cash flows and potential.

# US production update



## US Production

Strike currently produces oil and gas from three independent assets. Total oil production for the quarter was 4,239 bbls up 6% on the prior quarter and gas production was 77,706 Mcf down 9% on the prior quarter.

The Eaglewood Joint Venture (Strike 40% WI) produced 73,193 Mcf of gas and 1,407 bbls of oil net to Strike during the quarter, down 10% for gas and down 11% for oil on the previous quarter. In both cases, these decreases were due to an unplanned shutdown as a result of a pipeline outage. This resulted in approximately ten days of lost production in the September quarter.

The MB Clearfork Project (Strike 25% WI) produces oil from 20 conventional Permian Basin wells in Martin County, Texas. During the quarter, the MB Clearfork Project produced 2,561 Mcf of gas and 1,872 bbls of oil net to Strike, up 30% for gas and up 27% for oil from the previous quarter.

The Eagle Ford shale project (Strike 27.5% WI) produces oil and gas from the Bigham 1H well in Fayette County, Texas. The well produced 1,952 Mcf of gas and 960 bbls of oil net to Strike during the quarter, down 11% for gas and up 2% for oil on the previous quarter.

Average realised prices during the quarter were US\$99.32/Bbl, down 10% from US\$109.80/Bbl in the previous quarter for oil and US\$4.36/Mcf, down 20% from US\$5.44/Mcf for gas in the previous quarter.

	SEPT QTR 2014	JUNE QTR 2014	QUARTERLY CHANGE
<b>EAGLEWOOD JV – CYPRESS RAVEN (WILCOX)</b>			
Gas (Mcf)	73,193	81,556	-10%
Oil (Bbl)	1,407	1,585	-11%
Total Revenue (USD'000)	470	595	-21%
<b>PERMIAN BASIN – MB CLEARFORK PROJECT</b>			
Gas (Mcf)	2,561	1,977	30%
Oil (Bbl)	1,872	1,471	27%
Total Revenue (USD'000)	187	178	5%
<b>EAGLE FORD SHALE – BIGHAM 1H</b>			
Gas (Mcf)	1,952	2,195	-11%
Oil (Bbl)	960	942	2%
Total Revenue (USD'000)	103	132	-22%
<b>TOTAL</b>			
Gas (Mcf)	77,706	85,728	-9%
Oil (Bbl)	4,239	3,998	6%
Total Revenue (USD'000)	760	905	-16%
Total Revenue (AUD'000)	820	970	-16%
Gross margin (%)	59%	59%	

Based on industry convention energy equivalence 6 Mcf of gas = 1 Bbl of oil



# Finance, Commercial and Corporate Update



## Corporate Office

120B Underwood Street  
Paddington NSW 2021

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

## Registered Office

120B Underwood Street  
Paddington NSW 2021  
T: +61 2 9397 1420

## Securities Exchange

ASX : STX

## Securities on Issue

Shares: 833,330,946  
Options: 11,700,001  
Performance Rights: 1,700,000

## Analyst Coverage

Firm	Analyst
Lonsec	Tim Gerrard
Ord Minnett	John Young
Euroz	Michael Skinner
Bell Potter	Peter Arden
RBC Capital	Andrew Williams

During the September quarter the Company continued to advance a number of its commercial and financial initiatives in support of the accelerated appraisal and development of the SCBGP.

## Key highlights:

- The Company completed and successfully lodged with the Australian Taxation Office its' FY 2014 R&D claim for \$5.8 Million. Payment of the claim is expected within the next couple of weeks. In addition the Company received proceeds from its' partial Eagle Ford Shale acreage divestiture of US\$4.6 million with a further final completion payment due to be received in the near term.
- The Company has received indicative approaches from a range of commercial and industrial gas users regarding further gas offtake contracts. These discussions are ongoing however the Company is fully funded for the next phase of activities and does not intend committing to additional gas sales until the SCBGP is further de-risked or a larger resource base is delineated.
- Planning for the surface infrastructure required to support an initial project development in PEL 96 has commenced. The feasibility of early construction and operation of a small scale gas processing facility designed to process, compress and deliver sales gas produced from the multi well testing program into the Moomba to Adelaide Pipeline is being advanced. Discussions with engineering and infrastructure suppliers are progressing with significant interest in supporting the development of an independent

gas processing facility in the Southern Cooper Basin.

In September, the Annual Financial Report for the year ended 30 June 2014 and Notice of Meeting for the Company's Annual General Meeting was dispatched to shareholders. The Annual General Meeting will be held at 2:00pm on 30 October 2014 at the offices of Allens, Level 28, Deutsche Bank Place, 126 Phillip Street, Sydney.

The Board looks forward to welcoming shareholders to the forth coming Annual General Meeting, which in addition to the Resolutions to be voted upon, will include an update presentation on the Company by Mr David Wrench.



# Appendix 5B

## Mining 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

Name of entity

**STRIKE ENERGY LIMITED**

ABN

**59 078 012 745**

Quarter ended ("current quarter")

**30 September 2014**

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors (1)	1,512	1,512
1.2 Payments for (a) exploration & evaluation	(5,155)	(5,155)
(b) development	(35)	(35)
(c) production (2)	(1,076)	(1,076)
(d) administration	(1,024)	(1,024)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	206	206
<b>Net operating cash flows</b>	<b>(5,572)</b>	<b>(5,572)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects (3)	4,969	4,969
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>4,969</b>	<b>4,969</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(603)</b>	<b>(603)</b>

- (1) Receipts from product sales and related debtors for the quarter include \$ 0.7 million (including GST) under gas prepayment agreements with existing commercial off takers.
- (2) Production payments include prepayments made for gas transmission rights for the Groups US assets.
- (3) As announced on 11 July 2014 the Group entered into a Purchase and Sale Agreement with Penn Virginia Oil & Gas to sell 1,617 of its net acres in Lavaca County Texas (USA). Proceeds of US\$4.6 million were received on 29 August 2014.

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(603)	(603)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options (net of costs)	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(342)	(342)
1.18	Dividends paid	-	-
1.19	Other:		
	a. Interest and other cost of financing paid	(167)	(167)
	b. Interest & other items of a similar nature received	64	64
	<b>Net financing cash flows</b>	(445)	(445)
	<b>Net decrease in cash held</b>	(1,048)	(1,048)
1.20	Cash at beginning of quarter/year to date	10,624	10,624
1.21	Exchange rate adjustments to item 1.20	64	64
1.22	<b>Cash at end of quarter</b>	<b>9,640</b>	<b>9,640</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2 (a)	297
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions (a) In addition to the respective salary and fee payments made to Directors, during the quarter the Group also made payments to M H Carnegie & Co Pty Ltd a director related entity via Mr M Carnegie of \$27,028 under the terms of an office leasing agreement. In addition during the quarter, the Group made payments of \$87,725 to Mr D Baker for consulting services for the period from July 2014 to September 2014.	

**Non-cash financing and investing activities**

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities (1)	6,203
3.2	Credit standby arrangements	-

(1) The Group continues to be a party to both the BlueRock Facility and the Orica Facility on the same terms and conditions as disclosed in the annual financial report for the year ended 30 June 2014.

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	6,814
4.2 Development	72
4.3 Production	381
4.4 Administration	1,360
<b>Total</b>	<b>8,627</b>

*The above estimated cash outflows for the next quarter do not take into account the benefit of cash inflows of \$5.8 million to be received from the ATO in respect of the Company's FY 14 eligible R&D activities, the sale of production or forward gas sales prepayment agreements, cash inflows associated with committed lines of financing and the effect of other cash flow positive activities.*

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
<b>5.1 Cash on hand and at bank</b>	<b>1,045</b>	639
<b>5.2 Deposits at call</b>	<b>6,325</b>	7,200
<b>5.3 Bank overdraft</b>	-	-
<b>5.4 Other – Share of JV bank accounts</b>	<b>2,270</b>	2,785
<b>Total: cash at end of quarter (item 1.22)</b>	<b>9,640</b>	10,624

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A	Refer to item (1) below		
6.2 Interests in mining tenements acquired or increased	PELA 640	Cooper Basin Exploration acreage – 100% (2)	Nil	100%

(1) As announced on 11 July 2014 the Group entered into a Purchase and Sale Agreement with Penn Virginia Oil & Gas to sell 1,617 of its net acres in Lavaca County Texas (USA). Proceeds of US\$4.6 million were received on 29 August 2014. The Group continues to hold the same percentage interest in the Eagle Ford Joint Venture post this transaction.

(2) On 27 August 2014, the Company was pleased to announce that it had been successful in its application for block C02013-B (the block), now PELA 640 in the Cooper Basin exploration acreage release by the Government of South Australia. The blocks award is subject the negotiation of native title agreements with the local indigenous land owners and final acceptance of the award by the Company.



**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference <sup>+</sup>securities</b> <i>(description)</i>				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b><sup>+</sup>Ordinary securities</b>	833,330,946	833,330,946		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	<b><sup>+</sup>Convertible debt securities</b> <i>(description)</i>				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> <i>(description and conversion factor)</i>	500,000 7,000,000 1,000,000 3,000,000 200,000 (1) 1,700,000 (2) 1		<b>Exercise price</b> 20 cents 20 cents 20 cents 20 cents 18 cents - cents (2)	<b>Expiry date</b> 01 Nov 2015 18 Nov 2016 01 Nov 2017 18 Nov 2018 10 Apr 2018 14 May 2014 (2)
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter	6,000,000 2,500,000		20 cents 20 cents	31 Aug 2014 30 Sep 2014
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

(1) Reflects performance rights issued under the Company's Employee Share Incentive Plan.

(2) For the terms and conditions of the Orica Option please refer to the Group's Annual Financial Report for the year ended 30 June 2014.

**Compliance statement**

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: .....  
Company Secretary

Date: 20 October 2014

Sean McGuinness  
Print name: .....

**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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 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.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.