COOPER BASIN DRILLING TO EVALUATE UNCONVENTIONAL POTENTIAL

- The Cooper Basin is emerging as Australia’s premier unconventional oil and gas region
- Extensive permit areas on the Southern Flank of the Cooper Basin
- First dedicated unconventional wells drilled in Strike’s permit areas
- The Marsden 1 well in PEL 95 to spud in February, followed by the Davenport 1 well in PEL 94

OVERVIEW:

Strike Energy Limited is pleased to outline further details of its Cooper Basin unconventional exploration program announced in November 2011.

Strike will participate in two unconventional evaluation wells in the current quarter – see Map 1. The Marsden 1 well will test the Permian sections of the Battunga Trough within PEL 95 (Strike 50%) and is scheduled to spud in February. The Davenport 1 well will follow immediately afterwards and will test the Permian sections of the Milpera Trough within PEL 94 (Strike 35%).
The wells, both operated by Strike’s partner Beach Energy, will provide comprehensive data on Permian coal and shale formations and will enable the company to refine its resource model and develop the next stage of the evaluation and development program for the resource.

MANAGING DIRECTOR’S QUOTE:

Managing Director, David Wrench, said:

“Strike’s extensive acreage in the Cooper and Eromanga Basins of more than 16,000 net km² positions the company to be a major player in unconventional oil and gas exploration in Australia’s largest onshore oil and gas region.

“Our US experience has demonstrated that the most economic returns in shale developments are generated in wet gas fairways. Accordingly our Cooper Basin strategy is to target these zones.

“Our Marsden 1 and Davenport 1 evaluation wells will focus on identifying the wet gas fairway across the Southern Flank of the Cooper Basin,” he said.

DRILLING PROGRAM:

Marsden 1 is scheduled to spud in February and will be drilled in the Battunga Trough in PEL 95 (Strike 50%, Beach Energy 50%). The well will be approximately 10 kilometres from Senex Energy’s Vintage Crop 1 well which had the ‘presence of liquids rich gas’ and 6.5 kilometres from the conventional Battunga 1 well – see Map 2. Marsden 1 will be drilled to a total depth of 2,640 metres and is anticipated to intersect 700 to 800 metres of Permian sediments including the Toolachee, the Roseneath, Epsilon and Murteree formations (together ‘REM’) and the Patchawarra. Strike anticipates that these formations will be intersected at subsurface depths approximately 200 metres below those encountered by Vintage Crop. Marsden 1 will undergo extensive coring and logging and is expected to take 20 – 30 days to drill.

Map 2 – Marsden 1 well location (Battunga Trough)
Davenport 1 will follow immediately from Marsden 1 and will target the Permian sections of the Milpera Trough in PEL 94 (Strike 35%, Beach Energy 50%, Senex Energy 15%) – see Map 3. Davenport 1 will be drilled to a total depth of 2,458 metres and is anticipated to intersect approximately 700 metres of Permian sediments including the Toolachee, REM and Patchawarra formations. The well will be extensively cored and logged and is expected to take 20 – 30 days to drill.

Map 3 – Davenport 1 well location (Milpera Trough)

The two wells are expected to cost a total of $5.5 million, of which Strike’s share is about $2.5 million and will be funded from existing cash reserves.

STRIKE’S RESOURCE MODEL:

Strike is targeting the unconventional coal and shale resource within the Permian section of its permit areas on the Southern Flank of the Cooper Basin. The Permian section occurs at shallower depths than the dry gas resource that has been identified in the centre of the Cooper Basin. While gas contents and pressures may be lower at shallower depths, Strike’s US experience is that the most economic returns in shale developments are generated in the wet gas zone, up-dip from the dry gas window.

Strike’s technical analysis has identified that the wet gas zone in the Cooper Basin is at depths consistent with a substantial portion of the resource in the company’s permit areas. Oil fields on the margins of the Battunga Trough, vitrinite reflectance data from numerous wells in the region and mud logs from the nearby Battunga 1 well support Strike’s resource model – see Chart 1.
In summary, Strike believes that future commercialisation of the company’s unconventional resource will be favourably influenced by:

- The presence of methane and wet gas (heavier hydrocarbons) with low CO₂ content;
- Lower drilling and completion costs because of the shallower depths and the use of conventional rigs and drilling equipment

Strike will provide further updates on the progress of this program as drilling commences.

Yours faithfully

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Managing Director

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ADDITIONAL INFORMATION

COOPER BASIN UNCONVENTIONAL POTENTIAL

The Cooper Basin is Australia’s largest onshore oil and gas region and has been the primary supplier to east coast gas markets for decades. While production of conventional oil and gas is in decline, the basin is emerging as Australia’s premier unconventional hydrocarbon play. Underpinning the Cooper Basin’s prospects are the following key factors:

- **Increased east coast demand** – Gas demand is forecast to increase substantially from the three sanctioned Gladstone LNG projects and domestic consumers, including power generators. Santos forecasts that demand will increase from about 700 PJ/year currently to over 3,000 PJ/year by 2018 (Source – Santos Investor Presentation)

- **Higher east coast gas prices** – Increased demand will translate to higher gas prices and recent long-term gas supply agreements have been priced above $6/GJ, compared to historical levels around $3/GJ. Most analysts expect spot gas prices to rise to $6-9/GJ within the next few years. The higher prices will significantly enhance the economics of Cooper Basin unconventional resource plays

- **Well understood geology** – The Cooper Basin is Australia’s most explored hydrocarbon region. Thousands of conventional wells have been drilled in previous decades, providing an unrivalled level of information and understanding about the Cooper Basin’s unconventional coal and shale formations

- **Existing infrastructure and services** – Unlike other unconventional basins being explored, the Cooper Basin has existing pipeline infrastructure to east coast markets and access to oil and gas services. The pipelines have spare capacity so unconventional hydrocarbon discoveries can be brought to market relatively quickly

The unconventional coal, shale and tight gas potential of the Cooper Basin is widely recognised and the region is experiencing unrivalled levels of exploration activity. To date, activity has been led by Santos, which has already booked a contingent resource of 2,345 PJ, independently certified by DeGoyler and MacNaughton. Beach Energy has also drilled the successful Holdfast 1 and Encounter 1 wells and declared a contingent resource of 2 Tcf (about 2,100 PJ).

2012 is shaping up as a defining year for Cooper Basin unconventional exploration with more than ten dedicated unconventional wells already announced. In addition to the Marsden 1 and Davenport 1 wells being drilled in partnership with Strike, Beach Energy is planning five vertical evaluation wells within PEL 218, starting imminently with the Moonta 1 well, and two horizontal wells – Holdfast 2 and Encounter 2. Beach and its partner Icon Energy are also planning a horizontal well mid-year within the nearby ATP 855P. Building on the success of its mid-2011 Vintage Crop 1 discovery, Senex Energy is planning to spend up to $20 million on three wells within PEL 516 (immediately to the north of Strike’s acreage). Sasanof 1 spudded in early January and will be followed by Skipton 1 and Talaq 1, each targeting the Patchawarra, Toolachee and REM coal and shale sequences. While not dedicated unconventional wells, Drillsearch Energy and Beach Energy’s four Western Gas Fairway wells in PEL 106B will also test unconventional targets.