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THE BIG PICTURE:

Striking the right chord

Wednesday, 4 April 2012
James McGrath

THERE'S a remarkably simple way to get the market interested in your junior exploration company: just mention "Cooper Basin", "joint venture with Beach Energy" and "unconventional" in the same sentence.

Those three key phrases have certainly been of benefit to Strike Energy, which has seen its share price on an impressive run in 2012.

After an annus horribilis last year in which it shed more than 38% of its value, it's more than doubled its 10c low at the turn of 2011 to its current position of more than 22c.

While juniors are certainly prone to swings and roundabouts, a 120% jump is proof that investors are buying into the Strike story.

Perhaps more importantly, it shows that investors are hooked on the Cooper Basin unconventional narrative.

That narrative was given a kick along last year when Beach Energy booked a 2 trillion cubic feet contingent resource at PEL 218 after the drilling and fracturing of the Holdfast-1 vertical well plus testing at Encounter-1.

Suffice to say, the fact that a multi-Tcf contingent resource was booked from two vertical test wells had investors licking their lips at the prospect of horizontal wells in the Cooper.

The buzz has Beach Energy shares up by more than 61% from August last year until the time of writing, and the positive sentiment can be tracked at similar levels when observing other explorers in Beach's patch.

Drillsearch shares have been on a golden run over the same period, up almost 192% to \$1.53, although this has no doubt been helped by the excitement surrounding QGC's \$130 million farm-in to ATP 940P.

Senex Energy has also benefited, up by a similar 166% over the period.

By way of comparison, the All Ordinaries index recorded a moderately small gain of over 4% since the Holdfast-1 contingent booking while the ASX/S&P Energy 200 index has recorded a 5.4% gain over the same period.

Before its Cooper-led revival Strike had been largely unloved by Australian oil and gas investors, who lumped it in the risky basket labelled "US explorer".

While Strike isn't shying away from its current US acreage - who would when a fair chunk of its in the prolific Eagle Ford shale - it's pitching squarely on its Cooper Basin acreage and it's that angle which has attracted the attention of the market.

However, one of the interesting facts which has gone largely unnoticed by shareholders is that Strike Energy has been in the Cooper for almost a decade. In fact, Strike holds more than 16,000sq.km of permits and applications in the Cooper, where prospective resources have been estimated at 6.1 trillion cubic feet.

"It's not as if we've just appeared in the Cooper Basin," Strike managing director David Wrench told *EnergyNewsPremium*.

"I think what's happened is that all of a sudden the Cooper Basin has become much more attractive in the last 12 to 18 months really as a result of the development of technology around the unconventional.

"There's also been a change in dynamic in the Eastern States gas market. For 30 years the gas price in eastern Australia has been \$2, and it really made no sense for there to be a lot of work done in the Cooper Basin which was gas-focused because of the low prices.



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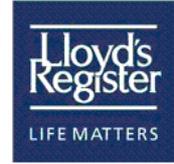
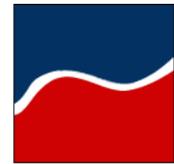
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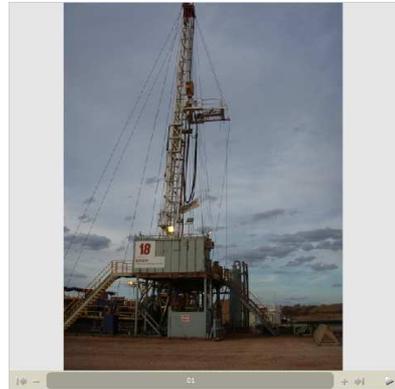
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"That's all changed."

Strike is drilling Marsden-1 at PEL 95 as part of a 50-50 joint venture with Beach Energy and will start drilling Davenport-1 at PEL96 in joint venture with Beach and Senex, wells Wrench describes as data wells.

"We're really trying to get some basic data," he said.

"We don't really know too much about the maturities of the shale, we need to see how much hydrocarbons have been generated ... all that basic stuff we don't know. We have clues and indications from offset wells and other work, but we haven't tested the centre of these basins."

Marsden-1 will be first up at PEL 95 and is targeting 700m to 800m of Permian sediments including the Toolachee formation and the Roseneath, Epsilon and Murteree (REM) formations.

The well will be drilled to a total depth of 2640m, with the REM formations expected to hit 200m further down than Senex Energy's nearby Vintage Crop-1 well.

Strike is hoping for the same kind of liquids-rich gas shows that Senex experienced, with Marsden-1 to undergo extensive coring and logging and a drill time pencilled in at 20 to 30 days.

Davenport-1 at PEL 94 will follow immediately after Marsden-1, and will target the Milpera trough.

It will be drilled to a total depth of 2458m and is expected to hit about 700m of Permian sediments including the Toolachee, REM, and Patchawarra formations. The well will also be cored and logged with drilling time also put at 20 to 30 days.

Both the wells are fully funded after Strike closed a \$A20 million equity raising recently.

Strike is targeting the wet gas fairway across the southern flank of the Cooper Basin, and its analysis has shown that such a zone is at depth consistent with a substantial portion of the resource in Strike's permit areas.

Wrench said it would take 12 months to two years to figure out whether hydrocarbons from the formations could be commercially produced.

Perhaps in no other address in Australia would cores and logs from two wells, and with commercialisation of the resource two years away, generate so much market buzz – something which Strike has been busy trying to capture over the past four months.

It has commissioned coverage from Breakaway Research, which labelled Strike as a speculative buy, doing the sums on the value of its acreage.

"The rationale is clear as Strike is by any measure far and away the cheapest of all ASX-listed Cooper Basin focused unconventional energy plays," the report read.

"This is despite the fact that the company's acreage position is as large and as vast as any of its peers.

"So there is undoubtedly a real opportunity here for a substantial share market re-rating."

It added that if Strike's acreage was valued on the basis on recent deals in the area, Strike's value would be several times more than its current market enterprise value of \$60 million.

It's part of a push from Strike to get the market to notice that it has Cooper Basin acreage.

"We've had the permits for a long time, the Cooper Basin's been there for a long time but the market's suddenly realised that the Cooper Basin is actually a really attractive place to be right now for an oil and gas explorer," Wrench said.

"It just so happens that we have a good position and in the past we haven't done as good a job as we should have in the past in communicating that to the market.

"We've tried hard to rectify that over the past three to four months."

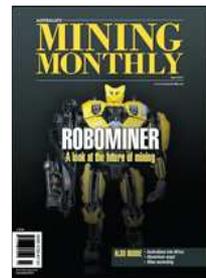
While it still has an exposure to the Eagle Ford shale in the US, Wrench said trying to expand in the sector without breaking the bank was starting to get problematic.

"In the US it's very hard to put together large acreage positions. We've worked for two years to put together a 34,000 acre play, which is tiny compared to what we have in the Cooper," he said.

"It's becoming more and more expensive to get into good plays in the US, whereas in Australia you can get very large positions in these huge resource plays, albeit at a very early stage. The attraction for Strike and its shareholders is that if we can move the play through the development phases, the upside to that is huge."



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It's that huge upside which has Strike Energy shareholders looking forward to the rest of the year.

After all, all it's had to do so far to get a 122% gain on the market is remind it of where its acreage is.



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