

The Company Announcement Officer  
ASX Ltd  
*via electronic lodgement*

## SOUTHERN COOPER BASIN OPERATIONS UPDATE

- **Klebb flow testing confirms high formation productivity**
- **Fundamental improvement in the development potential of the play**

Strike Energy Limited (ASX:STX) ("Strike") is pleased to provide an update on the flow back and testing operations at the Le Chiffre 1 and Klebb 1 wells since its previous announcement dated 2 July 2014.

### FLOW BACK AND TESTING OPERATIONS

Flow back operations at Klebb 1 commenced on 1 July 2014 from the Vu Upper stage only, with high initial flow rates (up to 3,000 bbls per day) being observed. Coil tubing operations, including circulating fluid and nitrogen pumping, were then undertaken to clean the wellbore and mill the inter stage plug and to artificially lift fluid out of the well. Overall 2,800 bbls of fluid was recovered from both zones and the well is currently shut in for ongoing pressure observation.

Details of the flow back and testing operations completed to date at each well are summarised below.

Well	Target seams	Total Net Coal	Frac Fluid pumped	Fluid recovered
Le Chiffre 1	Patchawarra Vu Upper & Lower	50m	6,400bbls	5,200bbls
Klebb 1	Patchawarra Vu Upper & Lower	50m	2,760bbls	2,800bbls

Analysis of the fracture stimulation and the flow back rates and pressures indicate that the coals at Le Chiffre have average permeability of up to 25 mD with those at Klebb, up to 16 mD. These are exceptional permeabilities for coals at these depths and combined with formation thickness, drive productivity that significantly exceeds our pre-test expectations.

Due to the limited supply of nitrogen available at the well locations, only short term flow tests were able to be conducted. Laboratory analysis of the return gas stream at Le Chiffre has confirmed that hydrocarbons were produced to surface during nitrogen lift flow back. Analysis of the gas samples collected at Klebb has not yet been completed.

These observations, combined with the volumes of gas previously measured to have desorbed from core samples confirm that gas is present within the coals. A more accurate estimate of the in-situ gas content and saturation of the coals will require further production testing. This testing phase will be designed to achieve a reservoir pressure drawdown around the existing wells sufficient to establish sustained gas flow and will most likely require pumps to be installed in the existing wells together with offset wells to be drilled and completed.

The planning for this program including water management is currently underway in parallel with ongoing analysis of the test results obtained to date. In the meantime, the fracture stimulation pumping and flow testing equipment have been demobilised from site.

## PROGRAM OBSERVATIONS

Our evaluation program has now confirmed that the Patchawarra coals encountered at Le Chiffre and Klebb have the following key attributes:

- Thick and consistent coal development over a very large area.
- The coals are thermally mature and have generated hydrocarbons.
- Gas volumes measured from desorption of coal samples together with evidence of gas flows to surface during the current flow test program confirm the presence of gas in the coals. These observations confirm the range of gas contents used in the Company's prospective resource estimate.
- The coals have high permeability and exceptional productivity.

## IMPLICATIONS

Key implications of the work completed to date are:

- Preliminary reservoir modelling assuming only the volume of gas measured from desorption of coal samples and the permeability observed at Le Chiffre and Klebb indicates that recoveries in excess of 2 Bcf per well are achievable.
- The coals may not require stimulation to flow at high rates presenting an opportunity to reduce development drilling and completion costs.

- Laboratory analysis of water and gas samples is still underway, so the implications of the volume of fluids recovered in the initial testing phase are yet to be resolved. Well completion design and production methodology will be refined as gas and water saturation levels are confirmed through the next phase of testing.

Further work will need to be completed to formulate an appraisal and field development plan which will test a number of key sensitivities such as well spacing, completion design, recovery, drilling and completion while separately evaluating potential costs associated with water management to optimise development economics.

#### **MANAGING DIRECTORS COMMENT**

*"We are very pleased to have successfully completed this first phase of production testing under budget and without incident.*

*The surprising discovery that this coal system has such high productivity has fundamentally improved the development potential of the play. We are actively working on the analysis of our results to date and look forward to finalising plans for the next phase of testing over the next 4 to 6 weeks."*

Yours faithfully

A handwritten signature in black ink, appearing to read "DWrench", with a long horizontal stroke extending to the right.

DAVID WRENCH  
Managing Director