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DAILY RESOURCES BULLETIN by Gavin Wendt

Tuesday 5th September, 2017

Technical Success, Klebb Upper Seam – Portfolio Stock (coverage initiated @ $0.10 in Oct 2015)

Strike Energy (ASX: STX, Share Price: $0.087, Market Cap: $83m) is our preferred 'unconventional' energy play. Strike's sole focus is on defining the commercial viability and overall resource extent of its emerging Southern Cooper Basin Gas Project (SCBGP), with the ultimate aim of delivering gas under long-term supply arrangements to growing and energy-starved markets in Eastern and Southern Australia.

The company has achieved Technical Success over the Vu Upper coal seam in the Klebb area within its SCGBP, with the estimated gas volume falling within the top-third of its expected range. With the right completion, the resource is producible and will be commercially appraised during Q1 2018.

Market Significance

Strike Energy has always been a high-risk/high-reward opportunity, with the additional proviso that a considerable amount of patience is required. This is because STX is aiming to commercialise what can best be described as an atypical resource project - and one that has significant technical challenges. The key challenge is to demonstrate that gas can be commercially produced from its Cooper Basin coal seams in substantial volumes. What the latest development tells us is that its coal seams to host an enormous amount of gas – providing sufficient confidence to proceed with commercial appraisal during Q1 2018.

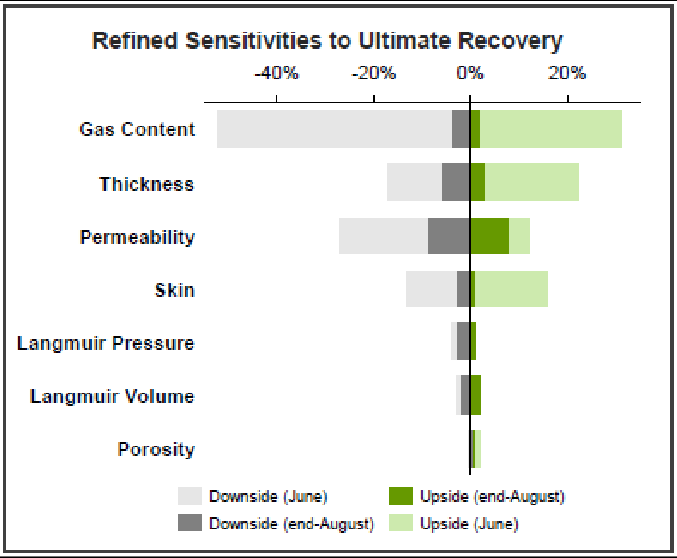
Catalyst – Greater Gas Resource Confidence

The company has achieved what it describes officially as 'Technical Success' with respect to the Vu Upper coal seam in the Klebb area, within its SCBGP in Cooper Basin PEL 96.

Strike has refined the gas content within the Vu Upper coal seam to between 6.1m3/t and 6.0m3/t, as well as confirming the productivity of the seam. Accordingly, commercial appraisal of the field with optimised production systems will take place during Q1 2018 as planned (known as the Jaws project).

Refined Reservoir Properties

	High	Low
Gas Content (m3/ton)	6.1	6.0
Matrix Permeability (md)	2.5	1.5
Fracture Permeability (md)	7	5
Porosity (%)	1.8	1.5
Reservoir Pressure (psi)	3000	2900
Compressibility (1/psi)	7.00E-04	5.00E-04
Desorption Pressure psi	895	750
CO2 Percentage (%)	44	32
Langmuir Pressure (Mpa)	13	11.5
Langmuir Volume (m3/ton)	18	16



Technical Significance

During May 2017, Strike recompleted its Klebb 2 & 3 wells in order to observe gas/water production and refine the range of the gas content present within the >35-metre thick Vu Upper coal seam.

After approximately three months of continuous operations with improved reliability, Strike has refined its gas content to between 6.1 m3/t and 6.0m3/t in the Vu Upper. Significantly, this is within the top-third of its expected range and reinforces the vastness of the gas resource. This is particularly significant because it had been independently identified as the greatest risk to the SCBGP's potential commerciality – as it could impact ultimate gas recovery and inhibit development.

With the refined gas content, increasing gas rates and reducing water rates, Strike is therefore confident that its gas resource is producible – will therefore move to the next step that involves commercial appraisal of the resource during Q1 2018 in the form of its Jaws project.

Next Steps

The recompletion of Klebb 1 will be undertaken, along with the removal of the bridge plug between the VU Upper and VU Lower. The Vu Lower coal at Klebb is untested, so this activity is expected to progress the VU Lower toward technical success, with the potential for a contingent resource over the Vu Lower coal during Q4 2017.

Project Overview

Strike maintains a 66.67% stake in and is the operator of the project, with fellow listed ASX energy play Energy World Corporation (ASX: EWC), holding a 33.33% stake. In all, Strike has a significant permit position across the Cooper-Eromanga Basin - with in excess of 9,200 sq km across its five permits.

Three of the Cooper Basin permits (PEL 94, 95 and 96) are on the southern flanks of the Cooper Basin. A fourth permit, PELA 640, has been offered to Strike by the Government of South Australia, subject to finalisation of the necessary Native Title agreements. A fifth permit, PEL 515, is prospective for oil in conventional Jurassic and Cretaceous targets on the south-western margin of the Cooper Basin, a potential extension of the Western Flank oil fairway.

Strike's SCBGP (PEL 94, 95 and 96) is targeting the gas potential of a series of very thick coals across a large portion of the permits. A significant upgrade to the prospective resource was made during 2012 after high gas content and thick coal was encountered in the Marsden 1 and Davenport 1 wells.

Gas Content Analysis

Strike Energy

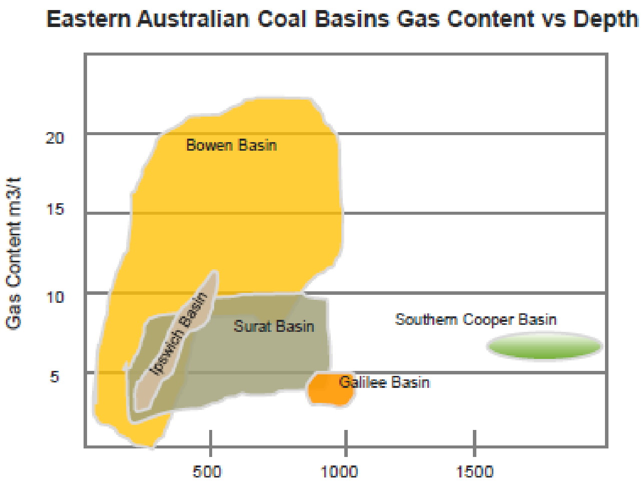


Figure: 1

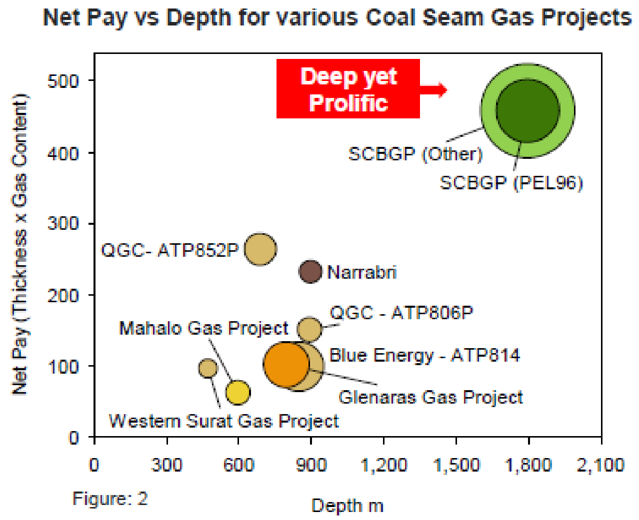
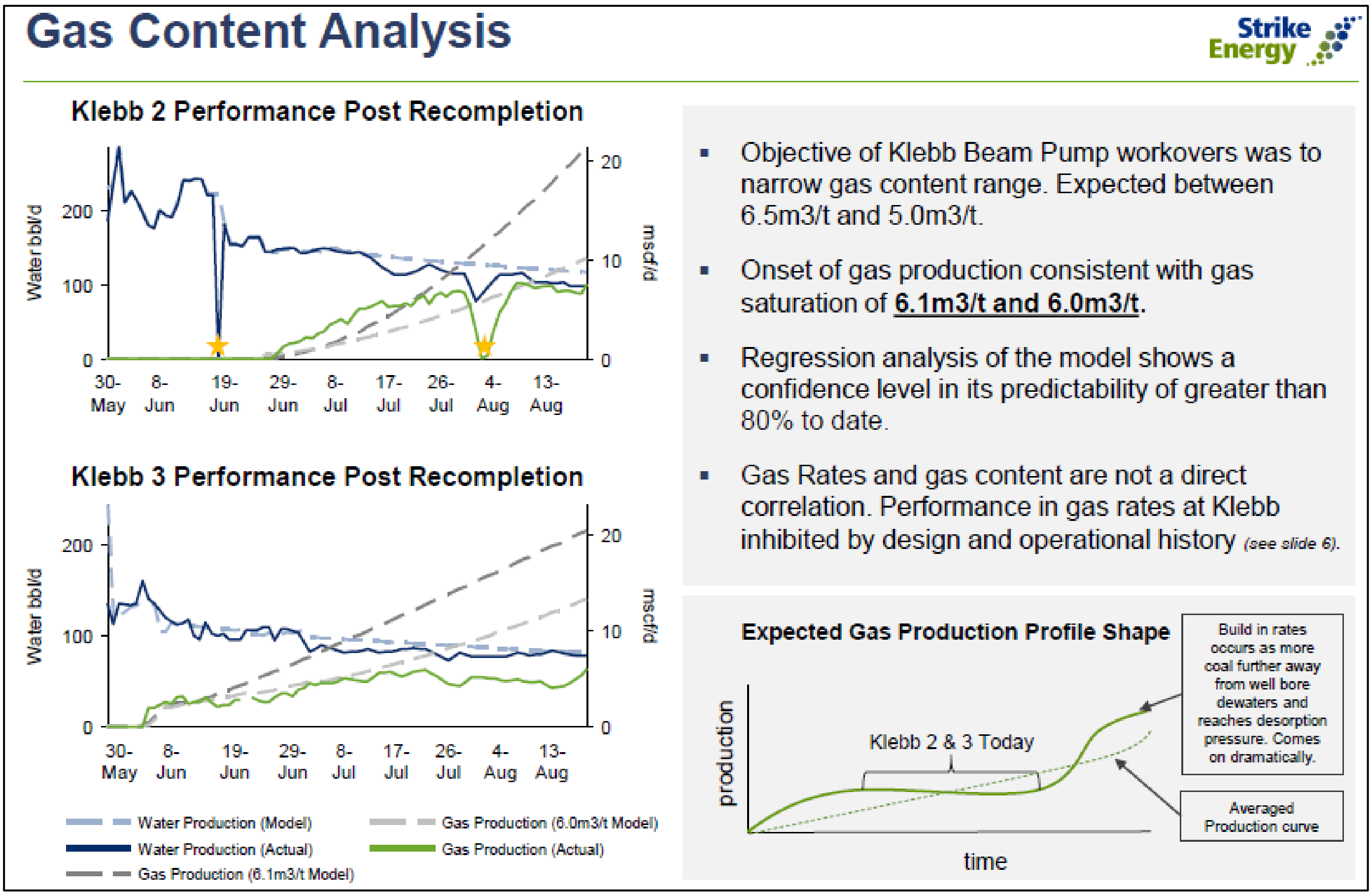


Figure: 2

- Strike's coal breaks the industry paradigm around the inverse relationship between depth and producibility. This is due to the Southern Cooper Coal's unique extensional vs compressional setting, allowing for preserved permeability.
- Regional expectation (refer Figure: 1) in line with Strike gas content analysis.
- Industry first: Strike's Southern Cooper Coal Seams are the deepest tested coal seams in Australia.

Strike subsequently drilled the Le Chiffre 1 and Klebb 1 wells in the Weena trough of PEL 96 during 2013. The program confirmed the presence of thick gas-bearing coals, with Le Chiffre 1 and Klebb 1 encountering a total of 105 metres and 145 metres of coal respectively - and both wells having an individual Patchawarra seam of 35 metres in thickness. Klebb 1 encountered the thickest total accumulation of Permian coal known to date in the Cooper Basin.

Strike has been conducting a series of flow tests at the Le Chiffre and Klebb locations with large and small fracture stimulations. Having achieved sustained gas flows to surface, further data gathered from ongoing testing will provide information about the optimum combination of well technologies and stimulation requirements required to maximise well productivity and recovery.



In April 2015, Strike announced the assessment of a Contingent Resource by independent consulting firm DeGolyer and MacNaughton, which confirms the potential of the gas resource within PEL 96.

Looming Gas Crisis

A major gas shortage looms for Australia from next year, posing a risk to electricity supply and security in several states. An assessment from the Australian Energy Market Operator (AEMO) is warning that, without a swift response, Australia could face a difficult choice - keeping the power on versus cutting gas supplies to residential and business customers.

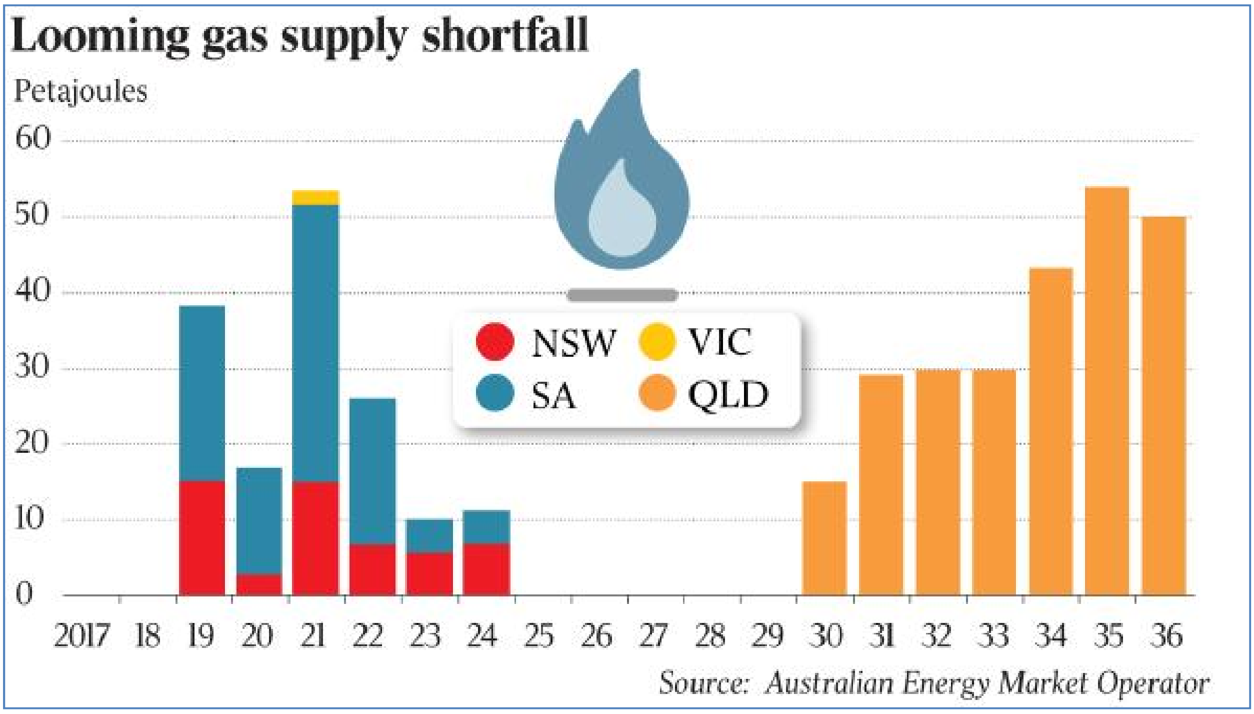
The analysis released in March 2017 says without new development to support more gas-powered electricity generation, modelling showed supply shortfalls of between 80 gigawatt hours and 363 gigawatt hours could be expected from summer 2018/19 until 2020/21.

Widespread shortages are predicted to hit New South Wales and South Australia first, then Victoria in 2021, and Queensland between 2030 and 2036. AEMO said the anticipated shortfalls would breach its reliability standard, which was an aim to supply at least 99.99% of electricity demand.

The report warns AEMO could be forced to curtail gas supplies to big users in winter next year to prevent a shortage in Victoria and South Australia, unless a pipeline upgrade can be fast-tracked. An upgrade of the south-west pipeline is required to refill an underground gas storage facility at Iona in Victoria, which is used to help meet peak winter demand.

The AEMO report makes clear Australia's energy mix is facing big challenges, with export of liquefied natural gas now a dominant factor for the eastern states, production from existing gas fields in decline, and electricity demand rising. It said some state governments were prohibiting onshore gas development with bans or moratoriums on fracking.

AEMO chief operating officer Mike Cleary said hard choices could confront Australia unless there was new gas production. "No longer can we look at gas and electricity independently. They are now totally integrated to the point where we need national planning to understand how we're going to operate these fuels going forward, given that any decision we make in gas or electricity will have an impact on the other."



Strike's SCBGP is ideally located to deliver competitively priced gas at scale into all major East Coast gas hubs - and is the closest to the Adelaide market of all existing and potential gas resources. The SCBGP is uniquely positioned to provide reliable gas supply for power generation to help stabilise the South Australian electricity market over the medium term.

Summary

We initiated coverage of Strike Energy at a price around $0.10 during October 2015.

The Cooper Basin has become Australia's premier location for evaluation of unconventional resources due to the historical hydrocarbon production, extensive geologic database and existing gas processing, pipeline and service infrastructure. It is also Australia's most prolific onshore hydrocarbon region.

Since the 1970s, the Cooper Basin has supplied more than 5 Tcf of gas to Australia's eastern and southern gas markets. The Eastern Australia gas markets are experiencing rapidly increasing gas demand due to the development of LNG for export and higher domestic demand.

Three of STX's Cooper Basin permits (PEL 94, 95 and 96) are on the southern flanks of the Cooper Basin. The southern flank is less thermally mature than the centre of the basin, suggesting that gas may be liquids-prone and may contain significantly less CO_2. The results so far show the SCBGP has the potential to supply gas at scale to the Eastern Australian gas markets within the next few years.

Strike Energy will therefore remain firmly held within our Portfolio.

Mustang Resources (ASX: MUS) – follow-up to Sunday's note

In Sunday's note we provided an update on MUS, based on important recent catalysts. Yesterday, MUS announced a further boost in its ruby stockpile, with its inventory rising to 176,522 carats.
The latest increase follows a record month of production in August, during which the plant delivered an additional 15,613 carats. MUS is now within reach of its 200,000-carat target for its inaugural rough ruby tender, scheduled for 27 - 30 October 2017 in Port Louis, Mauritius.

MUS' share price rose by a further 0.5c to close at $0.083 in Monday's trade, as anticipation builds around its inaugural ruby auction.