

Strike Energy Limited (ASX:STX)

Exposure to both west and east coast markets

Strike Energy (ASX:STX) is focussed on the development of its large and high quality conventional gas resources in the North Perth Basin (Western Australia), and on the appraisal of its Southern Cooper Basin Deep Coal Seam Gas Project (South Australia). Successfully progressing these projects could see STX becoming one of the few emerging gas players servicing both the increasingly tight WA market and the already tight east coast gas market.

North Perth Basin

Following the successful drilling completion and flow testing of the West Erregulla-2 well (EP469), STX announced in mid-November 2019, a (maiden) 2C Contingent Resource estimate at West Erregulla of 1,185BCF gross (592BCF STX, 50% interest). Management states that West Erregulla is believed to be one of the largest conventional gas fields ever discovered onshore Australia and indicative of a large contiguous structure. Additional resources are expected to be added from the associated Wagina sandstone formation. Following a A\$30m placement (@ A\$0.23ps) and progress towards a A\$5m SPP, STX is fully funded to progress with appraisal drilling and Phase 1 FID (~50TJ/d production) at West Erregulla, and to initiate a broader Perth Basin exploration program.

Southern Cooper Basin Gas Project (SCBGP)

Prior to the acquisition of the Perth Basin assets in 2018, STX's activities were centered on the group's permits in the Southern Cooper Basin and on PEL96 (STX 66.7% and operator, Energy World Corporation 33.3%) in particular. The SCBGP objective is to participate in the lucrative east coast gas market by commercializing coal seam gas (CSG) production from three exceptionally thick, but deep (2,000m), gas-rich coal seams. A Technical Validation Review 2017 carried out by external consultants Igesi Consulting estimates the CSG resource density at some 6BCF/km² (recoverable). Based on current permit acreage, the recovery gas density implies a – very substantial – Prospective Resource (net to STX) of some 11,500BCF (12,200PJ) in total. In mid-2018, STX commenced on a vertical and horizontal well campaign – the Jaws 1 Project – designed to significantly increase and upgrade the Resource estimate and book Reserves by proving commercial flow rates of gas. While the Project suffered a technical setback in early 2019, management indicated at the recent AGM that it is close to a potential production inflection point.

Valuation and Recommendation: A\$0.45ps, Buy

Underpinned by our NPV₁₀ valuation of A\$292m for West Erregulla (STX, 50% interest), we forecast STX's SOTP enterprise value at A\$761m. Adjusted for FY19A's net cash balance of A\$9m, **we calculate STX's equity value at A\$770m (equivalent to A\$0.45 per share).**

We note that West Erregulla (including resource upside from the Wagina formation) accounts for 45% or A\$0.20ps of our forecast EV, with the SCBGP accounting for 40% or A\$0.17ps. At current share price levels, this indicates to us that STX is effectively valued at either one or other of STX's assets – but not both. **Further support that STX is undervalued lies in a peer EV/GJ comparison.** At STX's current enterprise value (EV) of A\$305m and 2C Resources of 1,121PJ, we calculate that the group's resource base is currently valued at A\$0.27/GJe (rounded). This is significantly below the (simple) average of A\$0.80/GJe calculated for our peer sample of ASX-listed oil and gas plays.

2 December 2019

Share Price: A\$0.17

Target Price: A\$0.45

Target upside: 165%

Recommendation
Buy

Risk Assessment
Higher

Resources – Oil & Gas

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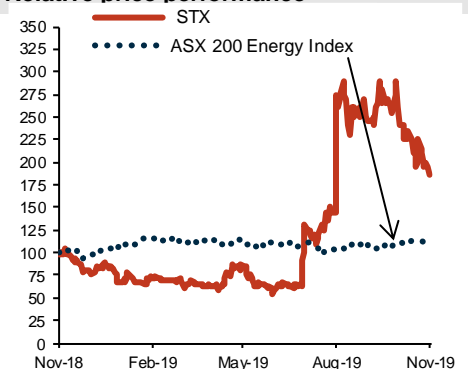
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Strike Energy Limited

ASX Code	STX
52- week range	A\$0.05-A\$0.32
Market Cap (diluted) (A\$m)	305
Shares (diluted) (m)	1,696m
Av Daily Turnover (shares)	6.4 million
ASX All Ordinaries	6,994
FY20E BV per share (A\$c)	7.6
FY20E EPS (A\$c)	-0.29
FY20E Net Cash/(Debt) (A\$m)	14

Relative price performance



Financial Statements

Strike Energy Ltd

Year ending June

Profit & Loss Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	0	0	0	0	48
COGS	0	0	0	0	(16)
Corporate costs	(3)	(4)	(5)	(5)	(5)
Exploration expenses	0	(1)	(1)	(1)	(1)
EBITDA	(3)	(5)	(6)	(6)	26
Depreciation & Amortisation	0	0	0	0	(10)
Operating profit	(3)	(5)	(6)	(6)	16
NOI	1.2	(0.9)	(0.9)	(0.9)	0
EBIT	(2)	(6)	(7)	(7)	16
Interest income	0	0	0	0	0
Interest expense	(0.5)	(0.2)	(0.2)	(1)	(1)
Tax expense	0	0	0	0	0
Reported NPAT	(3)	(6)	(7)	(8)	15
Normalised NPAT	(4)	(5)	(6)	(7)	15
EBITDA Margin (%)	n/a	n/a	n/a	n/a	54%
Operating profit margin (%)	n/a	n/a	n/a	n/a	33%
EPS Reported (A\$c)	(0.17)	(0.34)	(0.36)	(0.37)	0.75
EPS Normalised (A\$c)	(0.25)	(0.29)	(0.31)	(0.32)	0.75
EPS growth (%)	n/a	n/a	7%	4%	-329%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	1,273	1,620	1,784	1,959	2,046
YE no. of fully-diluted shares (m)	1,544	1,696	1,871	2,046	2,046

Cash Flow Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	(3)	(5)	(6)	(6)	26
Investment in working capital	2	0	0	0	0
Tax expense	0	0	0	0	0
Operating Cash Flow	(2)	(5)	(6)	(6)	26
Capex	(17)	(22)	(37)	(42)	(7)
Other investments	0	0	0	0	0
Investing Cash Flow	(17)	(22)	(37)	(42)	(7)
Net interest received / (paid)	(0)	0	0	(1)	(1)
Debt draw down / (repayment)	(5)	0	0	15	(15)
Dividends paid	0	0	0	0	0
Equity raised / (repaid)	39	35	35	35	0
Financing Cash Flow	34	35	35	49	(16)
Non-operating & Other (R&D rebate)	(7)	(3)	(1)	(1)	0
Inc/(Dec) in Cash	8	5	(9)	0	3

Balance Sheet (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Equivalents	11	16	8	8	11
Receivables	2	2	2	2	2
Inventories	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE and Exploration & Development	114	136	173	215	212
Deferred tax asset	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0
Total Assets	127	154	183	225	225
Payables and other current Liabilities	6	6	6	6	6
Short Term Debt	0	0	0	15	0
Long Term Debt	2	2	2	2	2
Other Non Current Liabilities	20	17	17	17	17
Total Liabilities	28	25	25	40	25
Total Equity	100	129	157	185	200
Net Cash / (Debt)	9	14	5	(9)	9

Top 3 Registered Shareholders	%	Date
MHC Fund Services	4.7	
JP Morgan Nominees Australia	3.2	Aug-19
HSBC Custody Nominees	2.5	

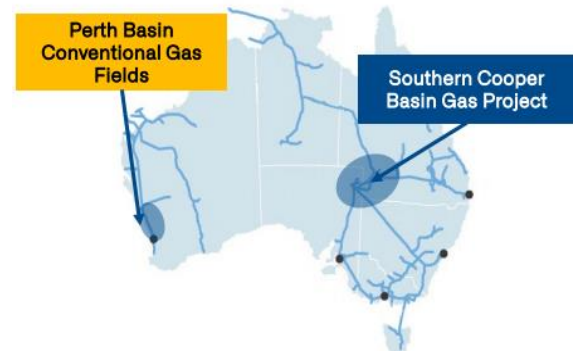
Source: Company, IRESS, State One Stockbroking forecasts

Revenue Forecast (A\$m) (100%)	FY19A	FY20E	FY21E	FY22E	FY23E
Gas sales (PJ)	0.0	0.0	0.0	0.0	18.0
ARP (A\$/GJ)	-	5.0	5.1	5.2	5.3
Revenue - Gas	0.0	0.0	0.0	0.0	95.5
Oil sales (MMbbl)	0.00	0.00	0.00	0.00	0.00
ARP (A\$/bbl)	-	89.6	91.4	93.2	95.1
Revenue - Oil	0.0	0.0	0.0	0.0	0.0
Revenue - Gas & Oil	0.0	0.0	0.0	0.0	95.5
Annual % change in revenue	n/a	n/a	n/a	n/a	n/a
Total sales volume (PJe)	0.0	0.0	0.0	0.0	18.0
Annual % change sales volume	n/a	n/a	n/a	n/a	n/a
Gas contribution to sales volume	n/a	n/a	n/a	n/a	100%
Oil contribution to sales volume	n/a	n/a	n/a	n/a	0%
Gas contribution to revenue	n/a	n/a	n/a	n/a	100%
Oil contribution to revenue	n/a	n/a	n/a	n/a	0%

Reserves & Resources (PJ)	Prospective Resource	2C Resource
West Erregulla (WE)	0	629
Wagina Formation (within WE)	145	0
Ocean Hill	0	382
Walvering	120	0
SCBGP - PEL96	4,700	109
SCBGP - Other permits	7,500	0
Total	12,465	1,120

Note: 2.5MMbbl Prospective Resource at Walvering converted to gas at: 1bbl oil = 6 GJ gas

Strike Portfolio – West & East



Valuation Ratios (x)	FY19A	FY20E	FY21E	FY22E	FY23E
Normalised P/E	-104.2	-52.2	-49.9	-49.0	24.2
Price/OP Cash Flow	-149.3	-55.6	-46.3	-46.3	10.7
Book value per share (A\$c)	6.5	7.6	8.4	9.0	9.8
EV (A\$m)	269	264	273	287	269
EV/EBITDA	-ve	-ve	-ve	-ve	10.4
ROE (%)	n/a	n/a	-ve	-ve	8%

SOTP Valuation	A\$m	A\$/share	A\$/GJ
NPV West Erregulla (WE) (STX 50%)	292	0.17	0.46
WE Resource upside - Wagina formation	51	0.03	0.35
Exploration upside - Ocean Hill	89	0.05	0.23
Exploration upside - Walvering	14	0.01	0.12
Exploration upside - Other	10	0.01	
Perth Basin, Western Australia	456	0.27	0.36
Southern Cooper Basin - PEL96	219	0.13	0.05
Southern Cooper Basin - other permits	87	0.05	0.01
Southern Cooper Basin Gas Project	306	0.18	0.03
Enterprise value	761	0.45	
Net Cash / (Debt) (FY19A)	9	0.01	
Equity value	770	0.45	

Note: Per share data based on diluted number of shares

Valuation

West Erregulla NPV₁₀: A\$584m (100%) / A\$292m (STX, 50%)

STX announced a maiden 2C Contingent Resource for West Erregulla on 11 November 2019. Thus, project development is at a relatively early stage. Our initial estimate of the project NPV is A\$584m (100%). See table below.

Figure 1: NPV of West Erregulla

	FY	2020	2021	2022	2023	2024	2025	2026	2027	2028	Balance	Total
Gas inventory - opening	PJ	939	939	939	939	921	903	885	867	849		
Gas inventory - closing	PJ	939	939	939	921	903	885	867	849	831		
Saleable gas production	PJ	-	-	-	18.0	18.0	18.0	18.0	18.0	18.0	822	930
Gas ARP	A\$/GJ	5.0	5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.9		
Revenue : Gas	A\$m	-	-	-	96	97	99	101	103	105	6,036	6,639
2P Oil Reserve - opening	MMbbl	-	-	-	-	-	-	-	-	-		
2P Oil Reserve - closing	MMbbl	-	-	-	-	-	-	-	-	-		
Saleable oil production	MMbbl	-	-	-	-	-	-	-	-	-		
Oil ARP	A\$/bbl	90	91	93	95	97	99	101	103	105	2,446	-
Revenue : Oil	A\$m	-	-	-	-	-	-	-	-	-	-	-
Revenue Total	A\$m	-	-	-	96	97	99	101	103	105	6,036	6,639
<i>COGS</i>	<i>A\$m</i>	-	-	-	(32)	(32)	(32)	(32)	(32)	(32)	(1,439)	(1,628)
<i>Admin/Corporate</i>	<i>A\$m</i>	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(13)	(17)
<i>Exploration expenses</i>	<i>A\$m</i>	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(52)	(71)
Total costs	A\$m	(6)	(7)	(7)	(39)	(39)	(39)	(39)	(39)	(39)	(1,622)	(1,876)
EBITDA	A\$m	(6)	(7)	(7)	57	59	60	62	64	66	4,414	4,762
PAT	A\$m	(6)	(7)	(7)	57	59	45	47	48	50	3,310	3,596
Equity funding	A\$m	-	35	35	-	-	-	-	-	-	-	70
Debt funding	A\$m	-	-	-	-	-	-	-	-	-	-	-
Development capex	A\$m	-	(35)	(35)	-	-	-	-	-	-	(100)	(170)
Sustaining capex	A\$m	-	-	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(131)	(168)
Cash flow	A\$m	(6)	(7)	(12)	52	53	40	41	43	44	3,079	3,327
<i>Discount rate</i>												
NPV (Project 100% Basis)	A\$m											584

Price and cost assumptions		2020	2021	2022	2023	2024	2025	2026	2027	2028
ARP: Gas	A\$/GJ	5.00	5.1	5.20	5.31	5.41	5.52	5.63	5.74	5.86
Brent crude oil	US\$/bbl	61.5	62.7	64.0	65.3	66.6	67.9	69.3	70.6	72.1
AUD:USD exchange rate	unit	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Cost of Sales	A\$/GJe	1.75	1.79	1.82	1.86	1.89	1.93	1.97	2.01	2.05
Price/cost inflation	%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Effective tax rate	%	0%	0%	0%	0%	0%	25%	25%	25%	25%
Gas unit data										
Revenue	A\$/GJe	na	na	na	5.31	5.41	5.52	5.63	5.74	5.86
Costs pre exploration	A\$/GJe	na	na	na	(2.03)	(2.04)	(2.04)	(2.05)	(2.06)	(2.06)
EBITDAX	A\$/GJe	na	na	na	3.27	3.37	3.48	3.58	3.69	3.80
Exploration costs	A\$/GJe	na	na	na	(0.11)	(0.12)	(0.12)	(0.12)	(0.12)	(0.13)
EBITDA	A\$/GJe	na	na	na	3.16	3.26	3.36	3.46	3.56	3.67
EBITDAX margin	%	na	na	na	62%	62%	63%	64%	64%	65%
EBITDA margin	%	na	na	na	60%	60%	61%	61%	62%	63%

Source: State One Stockbroking forecasts

Key assumptions include:

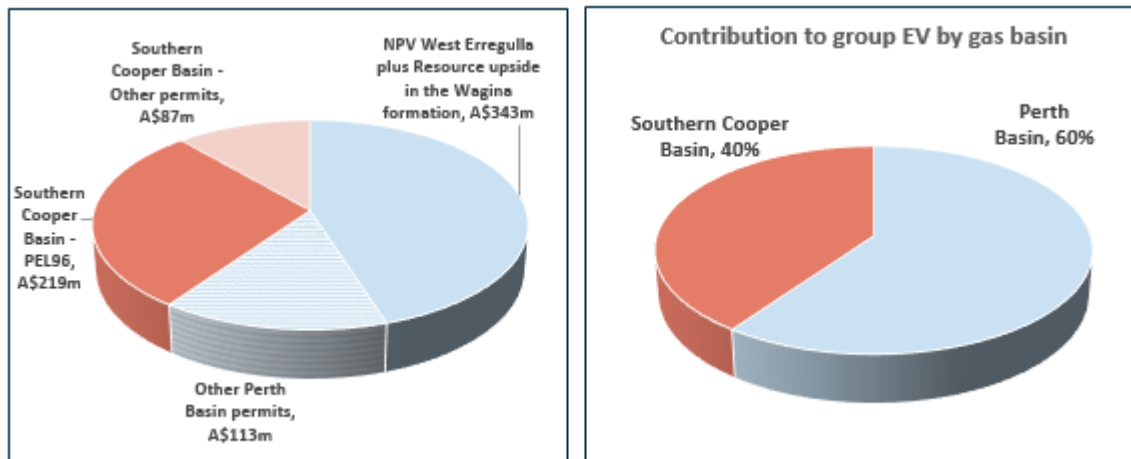
- Gas inventory base of 939PJ equivalent to 75% of the estimated 2C Contingent Resource of 1,185 billion cubic feet (BCF) (100% basis); production and sales of 18PJpa commencing in FY23E. Ten years production at 18PJpa (Phase 1) followed by 15 years production at 50PJpa (Phase 2). Production volumes and timing as per disclosed management guidance in company presentations.
- Average Received Price (ARP) for gas of A\$5.00/GJ (real).
- Cost of goods sold (COGS) of A\$1.75/GJ escalated at 2%pa.
- Aggregate development capex in FY21E and FY22E of A\$70m (for modelling purpose, State One assumes this is equity funded @ 20cps), and sustaining capex including exploration of A\$7m per annum.

Sum-Of-The-Parts (SOTP) valuation

Underpinned by our estimated NPV valuation for West Erregulla, we forecast STX's SOTP enterprise value at A\$761m. Adjusted for FY19A's net cash balance of A\$9m, we calculate STX's equity value at A\$770m (equivalent to A\$0.45 per share).

Figure 2: SOTP valuation

	(A\$m)	(A\$/share)	(A\$/GJe)	Resource (PJe)	Comments
NPV West Erregulla (WE) (STX 50%)	292	0.17	0.46	629	STX 50% equity interest in estimated Project NPV
WE Resource upside - Wagina formation	51	0.03	0.35	145	F50 Prospective Resource of 137BCF (STX: 50%)
Exploration upside - Ocean Hill	89	0.05	0.23	382	2C Contingent Resource of 360 BCF (STX: 100%)
Exploration upside - Walyering	14	0.01	0.12	120	F50 Prospective Resource of 100BCF & 2.5MMbbl (STX: 100%)
Exploration upside - Other	10	0.01	0.00	0	Nominal value
Perth Basin, Western Australia	456	0.27	0.36	1,276	Total
Southern Cooper Basin - PEL96	219	0.13	0.05	4,700	Prospective Resource of 4,432 BCF (STX: 66.7%)
Southern Cooper Basin - other permits	87	0.05	0.01	7,500	Prospective Resource of 6,955 BCF (STX: 100%)
Southern Cooper Basin Gas Project	306	0.18	0.03	12,200	Total
Enterprise value	761	0.45	0.06	13,476	Sum of Perth Basin and Southern Cooper Basin valuations
Net Cash / (Debt) (FY19A)	9	0.01			
Equity value	770	0.45			



Source: State One Stockbroking forecasts

Assumptions:

- **West Erregulla (WE) 2C Resource** valuation based on our estimated NPV₁₀.
- **Wagina formation** valuation based on its P50 Prospective Resource and assumes a GJe unit value at a 25% discount to the A\$0.46/GJ unit value implied by our WE NPV valuation.
- **Ocean Hill** valuation based on its 2C Contingent Resource and assumes a GJe unit value at a 50% discount to the WE 2C Resource.
- **Walyering** valuation based on its P50 Prospective Resource and assumes a GJe unit value at a 75% discount to the WE 2C Resource.
- **Southern Cooper Basin: PEL96** valuation based on its Prospective Resource and assumes a GJe unit value at a 90% discount to the WE 2C Resource.
- **Southern Cooper Basin: non-PEL96 permits** valuation based on their aggregate Prospective Resource and assumes a GJe unit value at a 97.5% discount to the WE 2C Resource.

60% of our estimated enterprise value for STX is derived from our valuations for the Perth Basin assets; 40% of the enterprise value is derived from our valuations for the Southern Cooper Basin assets.

Sanity check: EV/GJe peer comparative

At STX's current enterprise value (EV) of A\$305m and combined 2P Reserves and 2C Resources of 1,121PJ, we calculate that the group's resource base is currently valued at A\$0.27/GJe (rounded).

This is below the (simple) average of A\$0.80/GJe calculated for our peer sample of ASX-listed oil and gas plays and indicates that STX offers value on a relative basis.

Figure 3: Selected ASX-listed oil and gas stocks: enterprise value per GJe

STX's 2C Resource base

West Erregulla: 593BCF (629PJ)

Ocean Hill: 360BCF (382PJ)

Southern Cooper Basin PEL96: 103BCF (110PJ)

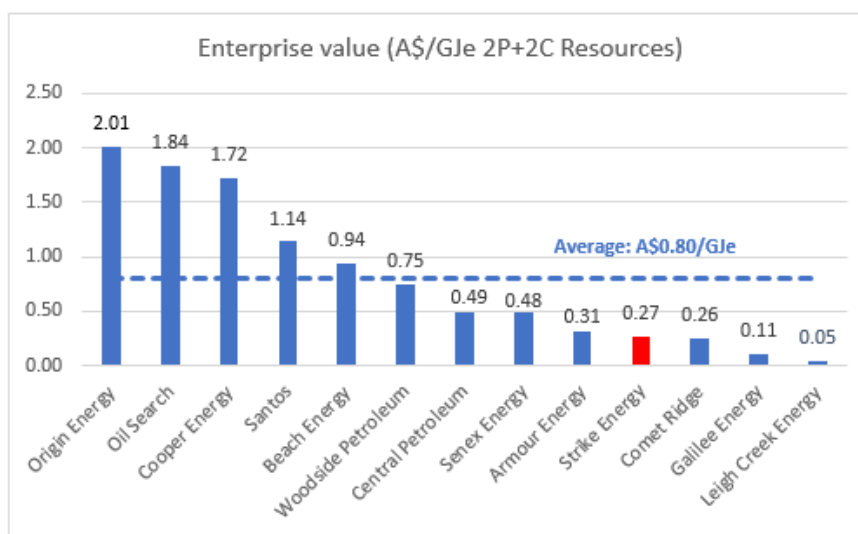
Source: Company, compiled by State One Stockbroking

Company	Ticker	Share price (A\$)	Total shares (million)	Mkt Cap (A\$m)	Cash (A\$m)	Debt (A\$m)	EV (A\$m)	price equivalent basis			EV/1P A\$/GJe	EV/2P A\$/GJe	EV/(2P+2C) A\$/GJe	Gearing D/(D+E) %
								1P PJe	2P PJe	2C PJe				
Large Cap "Majors"								17,305	26,057	59,595	5.38	3.57	1.09	21%
Beach Energy	BPT	2.44	2,279	5,561	172	0	5,389	2,201	3,673	2,031	2.45	1.47	0.94	0%
Oil Search	OSH	7.32	1,525	11,163	538	3,531	14,156	2,486	2,887	4,807	5.69	4.90	1.84	24%
Origin Energy	ORG	7.99	1,761	14,070	1,546	7,496	20,020	2,880	4,799	5,166	6.95	4.17	2.01	35%
Santos	STO	8.21	2,100	17,241	1,215	4,251	20,277	3,651	6,376	11,383	5.55	3.18	1.14	20%
Woodside Petroleum	WPL	32.60	942	30,709	3,037	5,524	33,196	6,087	8,322	36,208	5.45	3.99	0.75	15%
Junior Developers/Producers								884	1,458	1,948	2.37	1.44	0.62	17%
Armour Energy	AJQ	0.06	589	35	9	59	85	40	124	149	2.14	0.69	0.31	62%
Central Petroleum	CTP	0.17	774	128	18	82	192	125	152	241	1.53	1.26	0.49	39%
Cooper Energy	COE	0.57	1,700	969	164	214	1,019	256	354	238	3.98	2.88	1.72	18%
Senex Energy	SXY	0.35	1,487	520	63	40	498	463	828	199	1.07	0.60	0.48	7%
Strike Energy	STX	0.19	1,696	314	11	3	305	0	0	1,121	-	-	0.27	1%
CSG/Shale explorers/developers								18	172	3,090	25.47	2.67	0.14	0%
Comet Ridge	COI	0.28	751	207	12.9	0	194	18	172	582	10.76	1.13	0.26	0%
Galilee Energy	GLL	0.98	282	276	11.5	0	265	0	0	2,508	-	-	0.11	0%
UCG								0	1,153	1,469	-	0.11	0.05	3%
Leigh Creek Energy	LCK	0.21	605	124	3.1	4.0	125	0	1,153	1,469	-	0.11	0.05	3%

Source: Companies, IRESS (share price dates 27 Nov 2019), compiled by State One Stockbroking.

Note: for the purposes of the above peer comparison, we have attached more commercial value to liquid hydrocarbons by converting oil to GJ on a price equivalent basis of 1bbl oil = 8GJe, rather than on the calorific conversion rate of 1bbl oil = 6GJe.

Figure 4: Peer comparative: EV/GJe



Source: Companies, IRESS, compiled by State One Stockbroking

Recommendation & Risks

Our SOTP valuation of A\$0.45ps offers some 165% potential upside relative to STX's current share price levels of A\$0.17.

Recommendation: Buy (Higher Risk).

Risks to our estimated target price and forecast earnings profile include, but are not limited to:

- **Commodity prices** – specifically the domestic east coast gas price and the domestic west coast gas price. Depending on project development at the Perth Basin and the Southern Cooper Basin, STX could be one of the few junior ASX-listed energy plays simultaneously exposed to the different supply/demand and gas pricing mechanisms in east and west Australia. A softening in gas prices in one or both markets may curtail project development in one or both Basins.
- **West Erregulla development.** Some 38% of STX's enterprise value is derived from our estimated NPV value of A\$292m for West Erregulla (STX, 50%) – with this percentage increasing to 45% including potential Resource upside from the Wagina formation. However, the project is in a relatively early stage of development (with its Maiden Resource announced only in mid-November 2019). While management has indicated a targeted timeline for the project, the timeline is indicative and subject to a number of uncertainties including: appraisal results, JV discussions/processes, infrastructure access, capital procurement, offtake market conditions, land access and regulatory approvals.
- **Southern Cooper Basin Gas Project.** Some 40% of STX's enterprise value is derived from the estimated A\$306m value we attach to the group's Southern Cooper Basin (Coal Seam) Gas Project (SCBGP). While the Prospective Resource estimated for the SCBGP is significant at over 11Tcf of gas (12,200PJ) net to STX, the exploration/development program currently being undertaken at PEL96 (the Jaws 1 vertical and horizontal well program) may not result in a favourable result. The coal seams containing the CSG are at 2,0000m depth, significantly deeper than typical east coast CSG plays. A technical set-back early in 2019 forced the Jaws 1 Project to adopt a more cautious approach.

Our approach to "capturing" this risk has been to attach deeply discounted EV/GJ value of (only) A\$0.03/GJ to the SCBGP Prospective Resource – A\$0.05/GJ to the PEL96 Prospective Resource of 4,700PJ and A\$0.01/GJ to the aggregate Prospective Resource of 7,500PJ at other permits. In comparison, we calculate that CSG plays are typically valued at closer to 14c per GJ (of 2P+2C Resource). Thus, we believe that confirming (even a portion) of the Prospective Resource to a Contingent Resource, and further to a Reserve, could have a significant positive impact on our SCBGP valuation.

- **Exploration upside.** Some A113m or 15% of our estimated SOTP valuation is derived from exploration upside. Exploration programmes may not result in favourable results relative to expectations.
- **Other.** Regulatory or compliance change, key personnel risk.

Assets

Perth Basin, Western Australia

West Erregulla

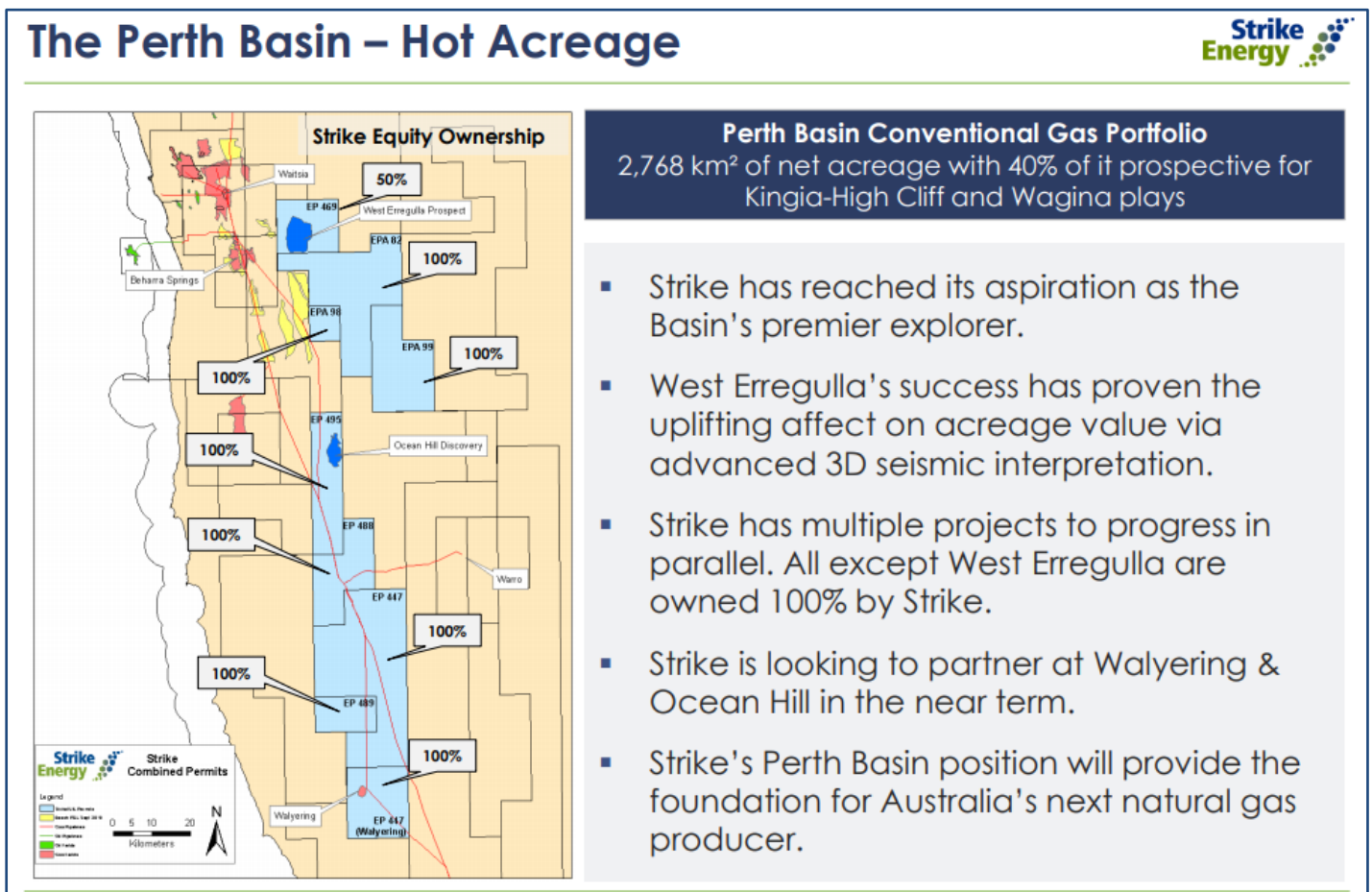
In March 2018, STX acquired from Warrego Energy (ASX:WGO) a 50% interest in and operatorship of petroleum exploration permit EP469 - the West Erregulla Project - in the prospective Northern Perth Basin, Western Australia. The consideration included a cash payment of A\$600k and sole funding up to a total of A\$11m (maximum) within 24-months of commencement of the joint venture in an exploration well and related geological and geophysical work and G&A expenses.

In December 2018, STX acquired substantial additional acreage in the Perth Basin via an all-scrip takeover of ASX-listed UIL Energy (now delisted) for an effective consideration of A\$11.5m.

EP469 contains extensions of known commercial plays, specifically the Kingia-High Cliff (KHC) Permian sand sequence - which hosts the producing Waitsia Gas Project (Mitsui 50% and operator, Beach Energy (ASX:BPT) 50%) and the Dongara-Wagina formation - which hosts the producing Beharra Springs Gas Project (BPT 50% and operator, Mitsui 50%). Both these producing fields are some 10-15km west of the West Erregulla Project.

Because of STX's acquisitions in 2018, the group now enjoys a dominant position in the Perth Basin with net acreage of 2,768km², 40% of which is prospective for KHC and Wagina plays.

Figure 5: Geographic location of Perth Basin acreage



Source: Company

Drilling of the exploration well West Erregulla-2 (WE-2) commenced in June 2019.

- On 1 August 2019, STX announced a significant gas discovery in the secondary target - the Wagina Sandstone (@ 4,106m-4,180m depth).
- On 27 August 2019 STX announced a significant gas discovery in the primary target - the Kingia Sandstone (@ 4,753m-4,790m depth)
- On 6 September 2019, STX announced a significant gas discovery in the (associated) primary target - the High Cliff Sandstone (@ 4,918-4,930 depth). Drilling was completed at 5,100m.
- In mid-October 2019, production flow testing of the Kingia Sandstone commenced. Above expected flow rate results of 69 million standard cubic feet per day (mmscf/d) were announced in late October.
- **On 11 November 2019, STX announced a maiden 2C contingent Resource estimate for West Erregulla of 1,185 billion cubic feet (BCF) (100% basis), with 50% of this, 593BCF (equivalent to 629PJ), STX's interest.** Note: this Resource is for the KHC formation only. The Wagina formation is subject to further testing but management believe it too has the potential to represent a significant conventional gas accumulation; STX have currently attached to Wagina a P50 Prospective Resource of 137BCF (145PJ) (STX interest).
- The 5,100m WE-2 is currently the deepest well in onshore Australia and has also discovered the deepest hydrocarbons. The "trifecta" of positive gas discoveries in each of the three targeted formations – the Wagina, Kingia and High Cliff Sandstones, plus positive gas flow results and the release of a maiden Resource, saw STX's share price increase by a significant 380% to a high of 29c in October from 6c in July.

Figure 6: STX share price (November 2017-Present)



Source: IRESS

In November 2019, STX completed a A\$30m share placement @ A\$0.23ps and announced a A\$5m Share Purchase Plan (SPP). Funds raised will be primarily applied to the company’s exploration and appraisal programme in the Perth Basin as well as continuing piloting operations in the Southern Cooper Basin (coal seam) Gas Project.

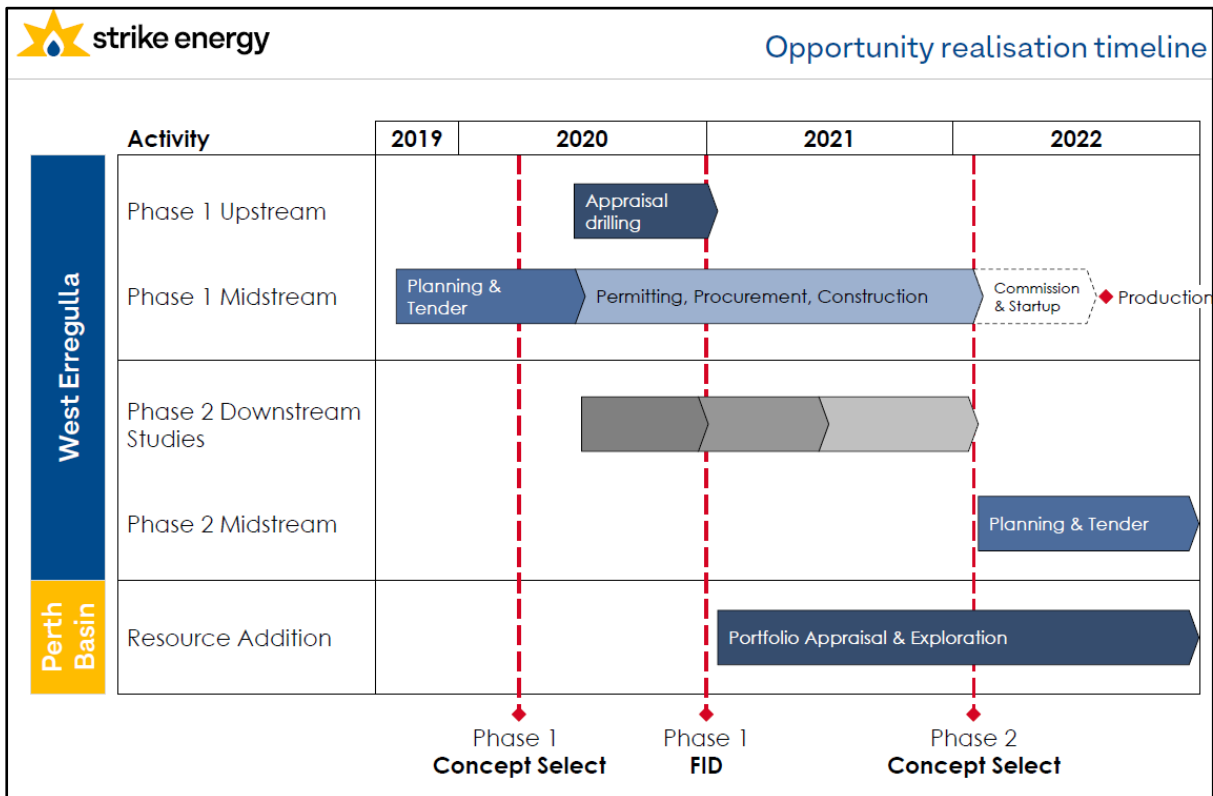
To minimize capital requirements, reduce potential funding hurdles (either debt or equity) and fast-track positive cashflows, STX intends a phased approach to developing the West Erregulla asset, with an initial (Phase 1) 10-year production of ~50TJ/d (18PJpa) (100% basis) and a targeted commencement date in mid-CY2022.

The ultimate size of Phase 1 will be contingent on JV participation, existing and new infrastructure (pipelines, gas-fired power stations), market appetite and pricing conditions. We note that CSBP, a fertiliser and chemicals manufacturer based at Kwinana, has entered into an option agreement with STX. CSBP could be a potential “anchor customer” for Phase 1, with a cost-plus pricing mechanism significantly de-risking the Project.

Further out, management is looking at the potential for expanded production in Phase 2 to ~150TJ/d (55PJpa) (100% basis) depending on success in Resource addition, overall WA gas market demand and downstream opportunities i.e., feedstock for chemical and manufacturing, North West Shelf backfill or LNG plant expansion, new power generation.

In CY2020, STX will be looking to progress development of the West Erregulla Project with Phase 1 concept select studies and FID work. In addition, STX is looking to drill two (2) appraisal wells to confirm the Kingia reservoir characteristics and confirm flow tests and reserve booking of the High Cliff discovery.

Figure 7: West Erregulla – proposed development timeframe



Source: Company

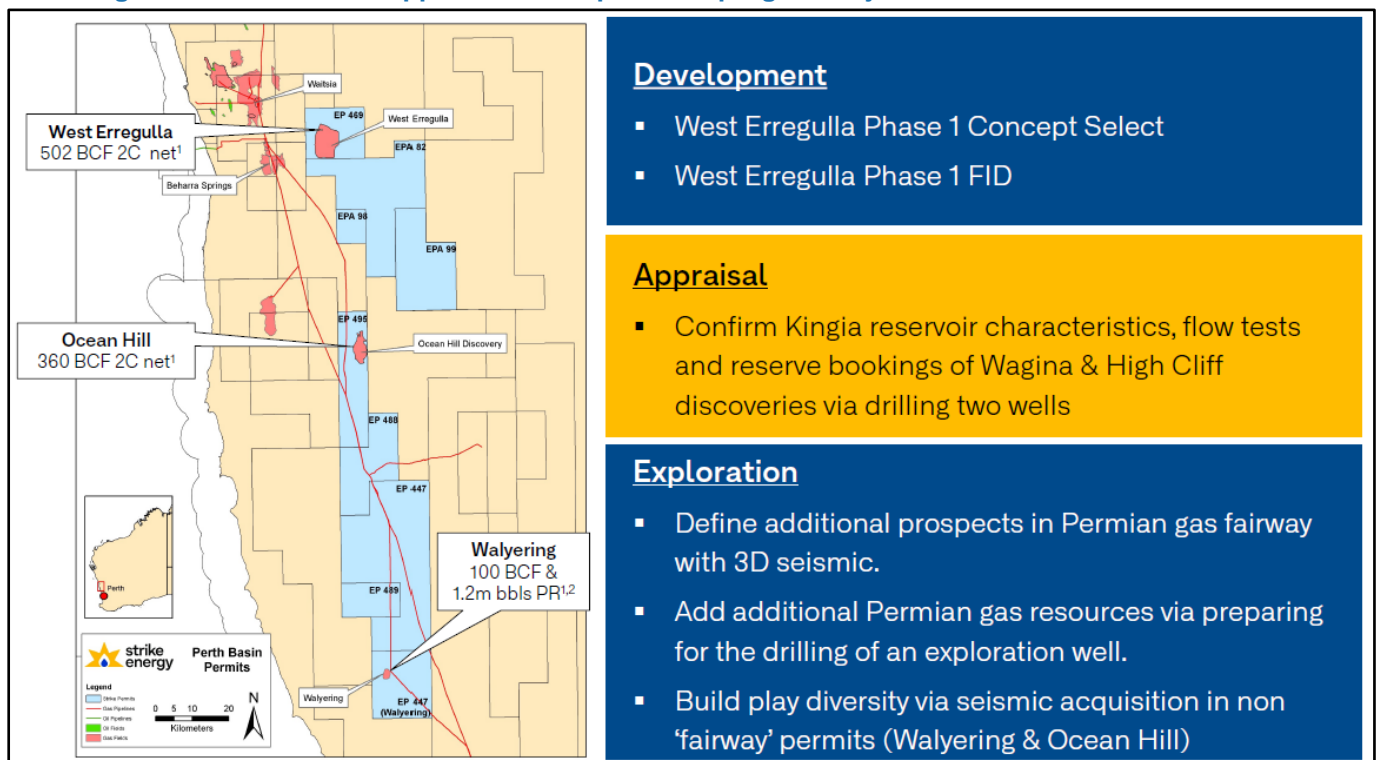
Other / exploration

With the Wagina and KHC formations believed to extend into the Dandaragan trough, the Resource at West Erregulla indicates that STX has secured a strategic position in the North Perth Basin's Permian "fairway". Thus, STX's 100% owned adjoining permits to West Erregulla represent highly prospective areas for follow on exploration; STX is looking to define additional prospects in the North Perth Basin in 2021 via 3D seismic studies.

In addition, STX is looking to build on exploration work carried out by the previous owners of STX's recently acquired non "fairway" permits in the North Perth Basin.

- The Ocean Hill 2C Contingent Resource of 360BCF (382PJ) is sourced from a 2013 ASX announcement from Greenrock Energy Limited (ASX:GRK, now Black Rock Mining (ASX:BKT)).
- The Walyering un-risked Prospective Resource of 100BCF and 2.5MMbbls condensate is sourced from 16 May 2018 ASX announcements from Pancontinental Oil and Gas (ASX:PCL) and UIL Energy.

Figure 8: Perth Basin – appraisal and exploration program objectives



Source: Company

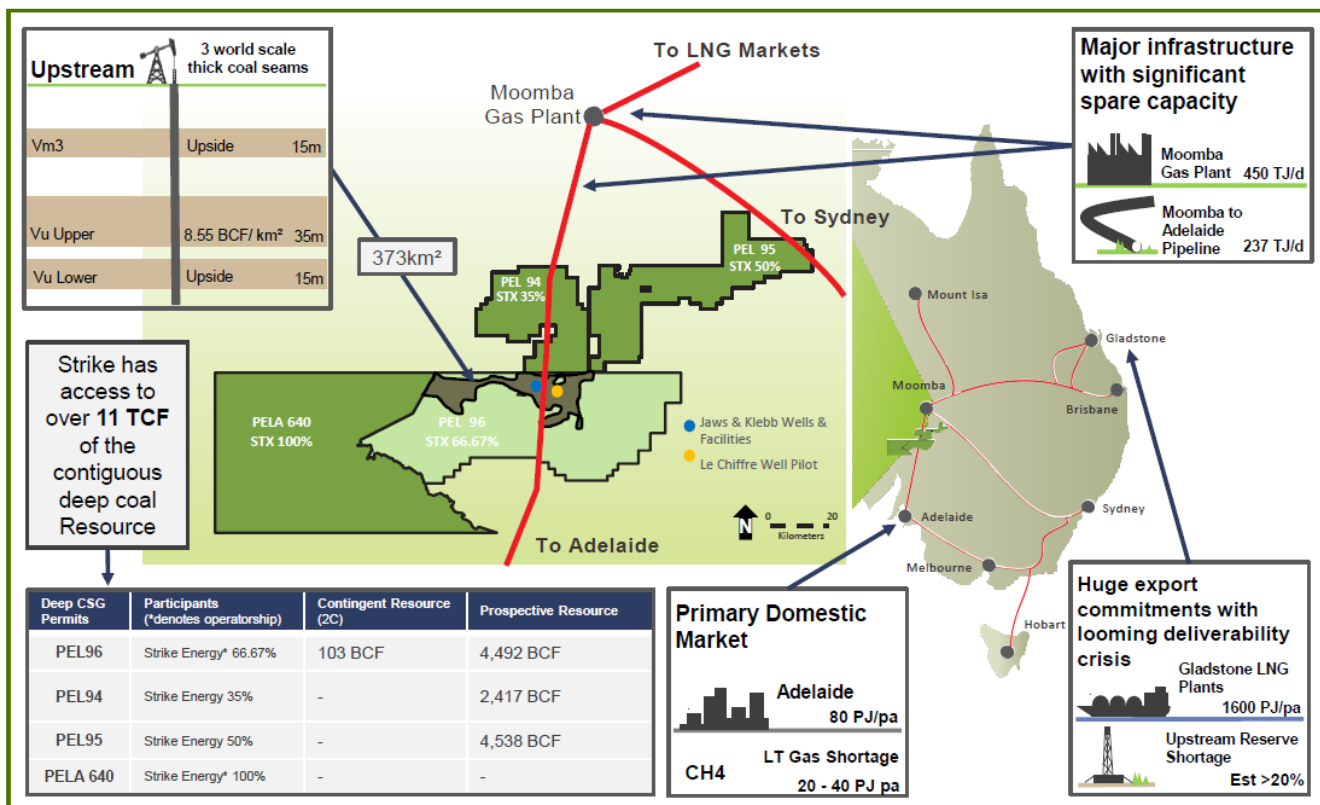
In November 2019, STX announced that it had embarked on the beginning of its Perth Basin development and exploration program with the commencement of a 3D seismic campaign at Walyering (90km²). STX estimates that the seismic campaign will take approximately six (6) weeks to complete followed by several months of processing and interpretation. The group is also preparing for a seismic campaign at Ocean Hill (250km²) and is currently in Native Title negotiations for three exploration permit applications in the highly prospective North Perth Basin.

Southern Cooper Basin

Prior to the acquisition of the Perth Basin assets in 2018, STX's activities were centered on the group's permits in the Southern Cooper Basin and on PEL96 (STX 66.7% and operator, Energy World Corporation 33.3%) in particular. The group's Southern Copper Basin Gas Project's (SCBGP) objective is to participate in the lucrative east coast gas market by commercializing coal seam gas (CSG) production from three exceptionally thick, but deep (2,000m), gas-rich coal seams.

A Technical Validation Review 2017 carried out by external consultants Igesi Consulting estimates the SCPGP's CSG resource density of the middle and thickest seam (Vu Upper) at some 8.55BCF/km² (gross) or 6BCF km² (recoverable). Based on current permit acreage, the recovery gas density implies a Prospective Resource (net to STX) of some 11,500BCF (12,200PJ) in total. Within PEL96, the net Prospective Resource of ~4,500BCF (4,700PJ) includes a 2C Contingent Resource of 103BCF (110PJ) announced in 2015. Note: the 2C Resource was estimated using data collected from vertical drilling programmes carried out in PEL96 (Le Chiffre-1, Klebb1-3 wells), fracture stimulation and flow-tests (Le Chiffre-1, Klebb-1 wells).

Figure 9: Southern Cooper Basin permits - location



*The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Prospective Resource shows Recoverable sales gas, net to Strike as of 1 February 2014. Resource Density of 8.55BCF/ km² is Raw Gas

Source: Company

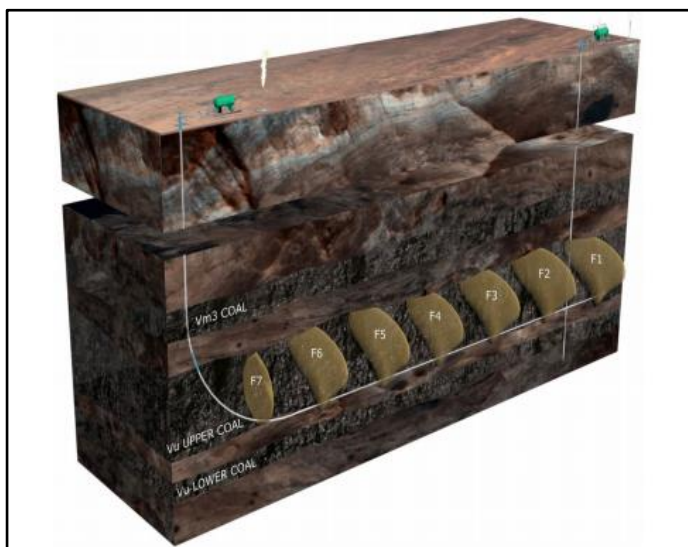
In Australia's east coast gas basins, CSG is typically extracted from coal seams lying at significantly shallower depths (300m-1,000m); thus, the SCBGP poses unique technical challenges. In 2018, STX commenced on a vertical and horizontal well campaign – the Jaws 1 Project - designed to significantly increase and upgrade PEL96's Resource estimate and book Reserves by proving commercial flow rates of gas.

Unlike conventional gas reservoirs, gas within coal seams is predominantly adsorbed to the coal (i.e. adhered to the surfaces of the coal) within the coal matrix and is in a compressed state. Note: coal seam gas production is typically undertaken in coals of mid-rank (i.e. low- to high-volatile bituminous coals), since desorption of coal seam gas from high rank coals such as anthracite is very slow. Extraction of methane gas may be achieved by introducing a more adsorbable gas (such as carbon dioxide), decreasing the methane partial pressure or decreasing the reservoir pressure. Most coal seam gas extraction in the world is undertaken by reducing reservoir pressure, which is achieved by pumping groundwater out of the coal formations. The reduction in water pressure associated with the groundwater removal within the seam causes the coal seam gas to desorb from the coal (i.e. detach from the surfaces of the coal).

Following successful drilling of the wells, dewatering approximately a square kilometre of coal in the middle seam (Vu Upper Coal Seam) began in August 2018. In early 2019, Jaws 1 reached drawdown target pressure of 225psi wellbore pressure (the differential pressure that drives gases from the reservoir into the wellbore). Unfortunately, in the first attempt of this drawdown, the sudden transition of the coal into its desorption window caused a substantial release of gas; a large body of proppant from one of the indirect vertical fractures led to a workover event. The workover was carried out in February 2019 and the vertical and horizontal wells were brought back online.

Since then, the reservoir has been carefully managed and the gas desorption process reinitiated in a more gradual process i.e., bottom well hole pressure kept at 240-250psi. However, at STX's November AGM, management indicated that water production of ~300bbls/day and instantaneous gas production rates of up to 50mscf/d was being achieved, and critically, that drawdown target pressure will be lowered to the key level (225psi) in December.

Figure 10: Jaws 1 well design



Source: Company

Directors

Source: Company, 2019 Annual report.

Note: Nev Power (ex-MD of Fortescue Metals (ASX:FMG)) was appointed to the STX Board in September 2019 as Non-Executive Director and Deputy Chairman.

Information about the Directors

The directors of the Company during the year ended 30 June 2019 and up to the date of this report are:

JOHN POYNTON CHAIRMAN (NON-EXECUTIVE), AO; CITWA; B COM; HON D COM; SF FIN; FAICD; FAIM

Mr Poynton is Chair of Jindalee Partners and Sapien Cyber Limited. He is a Board Member of the Future Fund Board of Guardians and a Director of Crown Resorts Limited. He has previously served as the Chair, Deputy Chair or Non-Executive Director of a number of ASX listed companies, Federal Government boards, education institutions and not-for-profit enterprises. Mr Poynton is an Officer in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category. He holds a Bachelor of Commerce and an honorary Doctor of Commerce from the University of Western Australia. Mr Poynton was appointed to the Board as Chairman on 10 April 2017.

STUART NICHOLLS MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr Nicholls is an energy industry professional having worked in both the up and downstream. Mr Nicholls has spent most of his time at Royal Dutch Shell within finance, commercial joint ventures, economics, strategy and exploration. Mr Nicholls joined Strike as Chief Executive Officer on 10 April 2017 and quickly went about rebuilding the company's Cooper Basin position and took the company into Western Australia where it has executed several transactions to build its highly attractive operated positions within the Perth Basin. Mr Nicholls has extensive knowledge across global gas markets and his previous experience also includes six years with the Australian Army in senior leadership positions. Mr Nicholls has worked in Australia, The Netherlands, Myanmar and Malaysia in both a corporate and operational capacity. He holds a Bachelor of Commerce (Finance and Accounting). Mr Nicholls was appointed to the Board as Managing Director on 18 August 2017.

STEPHEN BIZZELL DIRECTOR (NON-EXECUTIVE)

Mr Bizzell was appointed to the Board as a Non-Executive Director on 31 December 2018. He is Chairman of boutique corporate advisory and funds management group, Bizzell Capital Partners Pty Ltd. He is currently also a director of ASX listed Armour Energy Ltd, Stanmore Coal Ltd, Renascor Resources Ltd and Laneway Resources Ltd. Mr Bizzell was previously an Executive Director of Arrow Energy Ltd from 1999 until its \$3.5 billion acquisition by Shell and PetroChina in 2010. Mr Bizzell was a co-founder and Non-Executive Director of Bow Energy Limited until its takeover by Arrow Energy Ltd in January 2012 for approximately \$550 million. He qualified as a Chartered Accountant, has considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 25 years' corporate finance and public company management experience.

JODY ROWE DIRECTOR (NON-EXECUTIVE), DIP ACC; DIP FM; MAICD; MCIP

Ms Rowe's previous work experience includes senior commercial roles in Australia and the United Kingdom working with organisations such as BG Group-(Shell) QGC, Santos and Rio Tinto Mining with particular focus on mega projects such as GLNG and QCLNG and large-scale mining operations. Ms Rowe is a Director and member of the senior leaders' group of Safer Together group, an Oil and Gas Industry Association and also performs humanitarian work as a board member for Sight for All. In addition to her public boards, advisory boards and private equity Ms Rowe is the Chief Executive Officer of Rowe Advisory working within the oil and gas, mining, industrial, construction and agriculture industries. Ms Rowe was appointed to the Board as a Non-Executive Director on 30 June 2014.

ANDREW SEATON DIRECTOR (NON-EXECUTIVE), BE (CHEM) HONS; GRAD DIP BUS ADMIN; GAICD

Mr Seaton is an experienced energy executive with a background in finance, project management and investment banking. Mr Seaton was a senior executive with Santos Limited for twelve years, the last six of which he served as Chief Financial Officer. Prior to joining Santos, Mr. Seaton worked in investment banking with Merrill Lynch in Melbourne and New York. His early career included 10 years as a process engineer and project manager working across a range of upstream oil and gas projects and operating plants. Mr Seaton was appointed to the Board as a Non-Executive Director on 18 August 2017.

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