

Strike Energy Ltd

(STX \$0.15) Speculative Buy, Initiation of Coverage

EUROZ

Analyst	Date	Price Target
Jon Bishop	13 th May 2020	\$0.25/sh

Initiation of Coverage

Investment Highlights

In 2019, STX made a +Tcf onshore gas discovery at West Erregulla, in the Perth Basin, the largest onshore WA to date;

West Erregulla-2 (STX – 50% & Operator) encountered 3 gas bearing sands, with the second testing at 69mmcf/d, demonstrating excellent reservoir parameters;

Independently assessed 2C Contingent Resources est. at 1.19Tcf (STX 50%) recoverable;

Plus 273Bcf (P50) in Prospective Recoverable Resource (STX 50%);

Appraisal drilling (Dec H CY'20) to test c.2Tcf (gross recoverable) potential upside case;

The discovery is proximal to major processing infrastructure and trunklines servicing over 50% of the total WA domestic market;

Strong supply-demand outlook supports the proposed Stage 1 (+50TJ/d) & Stage 2 (c.200TJ/d gross) West Erregulla development:

- Concept Select & commencing FEED expected in the short term;
- FID is targeted for CY'20 end;
- STX has already secured offtake for up to 100PJ by CSBP (Westfarmers);

STX controls over 700,000net acres within the Perth Basin prospective for West Erregulla, Waitsia & Beharra Springs analogues;

South Erregulla Prospect could extend the West Erregulla accumulation, adding 1.6Tcf (P50) to potential volumes within STXs interests (possible CY'21 drill target);

STX has \$24m in Cash and no Debt;

The current price trades at a +40% discount to our \$0.22/sh risked Valuation on a conservative average A\$4.50/GJ gas price received escalated at CPI;

Unrisked (before full appraisal, project costing & financing) Valuation of \$0.42/sh;

Furthermore, we see material short to medium catalysts in:

- Appraisal drilling at West Erregulla (from Dec H CY'20);
- Basis of Design, FEED leading to FID mid FY'21;
- Additional Gas Sales Agreements;
- Commercial outcomes relating to Waitsia and potential toll-treatment via NWSJV;
- Exploration drilling (South Erregulla – potentially CY'21);
- Onshore Perth Basin drilling activity (BPT, NWE/MIN);
- Potential M&A as a consequence.

We Initiate Coverage with a Speculative Buy and set a \$0.25/sh Price Target.

Strike Energy Ltd	Year End 30 June	
Share Price	0.145	A\$/sh
Price Target	0.25	A\$/sh
Methodology		npv
Valuation	0.22	A\$/sh (npv 10% nom)

Shares on issue	1709	m, diluted *
Market Capitalisation	248	A\$m
Enterprise Value	224	A\$m
Debt	0	A\$m
Cash	24	A\$m
Largest Shareholder		0

Production F/Cast	2021f	2022f	2023f
Total Attrib (mmbse)	0.0	0.4	1.0

Assumptions	2021f	2022f	2023f
Avg Gas Price (A\$/GJ)	4.61	4.71	4.80
AUDUSD	0.70	0.70	0.70

Key Financials	2021f	2022f	2023f
Revenue (A\$m)	0	13	31
EBITDA (A\$m)	-8	1	14
NPAT (A\$m)	-9	-3	4
Cashflow (A\$m)	-37	-33	5

CFPS (Ac)	-2	-2	0
P/CFPS (x)	na	na	43.9

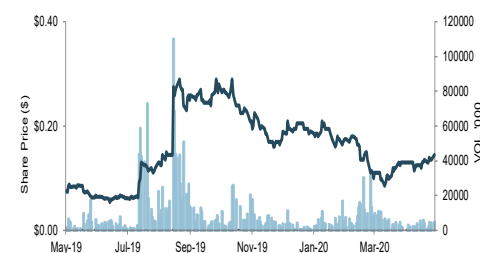
EPS (Ac)	-1	0	0
EPS growth (%)	na	na	na
PER (x)	na	na	67.3

EV:EBITDA (x)	na	212.1	16.6
EV:EBIT (x)	na	na	22.9

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	na	69%	na
Interest Cover (x)	na	na	1.1

Share Price Chart



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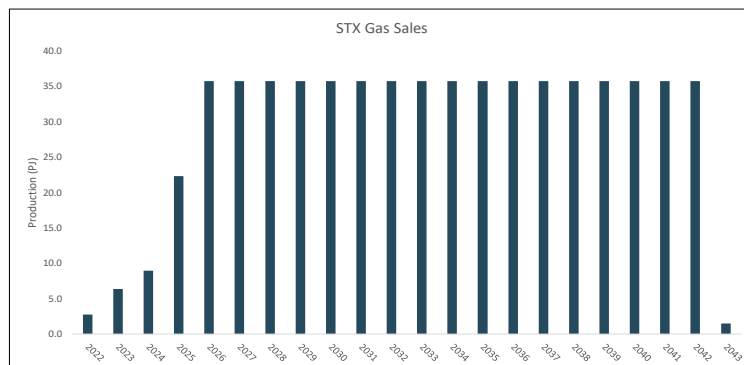
Key Variables

Val/ Sh		A\$ Gas (WA)									
		\$0.22	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Inflation Rate	15%	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.29	
	10%	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.28	
	5%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.28	
	0%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.27	
	-5%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.23	\$0.24	\$0.26	\$0.27	
	-10%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	
	-15%	\$0.15	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.26	

Val/ Sh		A\$ Gas (WA)									
\$0.22		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
Operating Cost	15%	\$0.15	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	
	10%	\$0.15	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	
	5%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.23	\$0.24	\$0.26	\$0.27	
	0%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.27	
	-5%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.28	
	-10%	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.28	
	-15%	\$0.17	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.28	

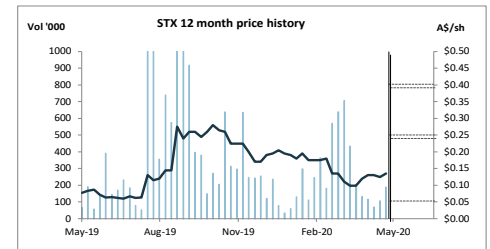
Val/ Sh		A\$ Gas (WA)									
Capital Intensity	\$0.22	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
	15%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	
	10%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.23	\$0.24	\$0.26	\$0.27	
	5%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.23	\$0.24	\$0.26	\$0.27	
	0%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.27	
	-5%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.28	
	-10%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.28	
	-15%	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.28	

Val/ Sh		Operating Cost								
Capital Intensity	\$0.22	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
	15%	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21	\$0.20	\$0.20	\$0.20
	10%	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21	\$0.21	\$0.20	\$0.20
	5%	\$0.23	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21	\$0.20	\$0.20
	0%	\$0.23	\$0.22	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21	\$0.20
	-5%	\$0.23	\$0.23	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21	\$0.21
	-10%	\$0.23	\$0.23	\$0.22	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21
-15%	\$0.23	\$0.23	\$0.23	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21	



Euroz Forecast	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25
WA Gas	\$4.52	\$4.61	\$4.71	\$4.80	\$4.90	\$4.99
AUDUSD	\$0.68	\$0.70	\$0.70	\$0.70	\$0.70	\$0.70

Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.22/sh

Price Target - \$0.25/sh

Bull Scenario - \$0.40/sh

STX successfully appraises West Erregulla confirming the 3C Resources for Kingia and/or verifies the Wagina Prospective Resource converting it Contingent category; FID is taken mid FY'21 for Stage 1 at 75TJ/d due to market demand resulting in firm term pricing and volume. Maiden 2P Reserves are booked and Financing is secured.

Base Scenario - \$0.25/sh

STX successfully appraises West Erregulla, confirming 2C & P50 estimates for the three Permian reservoirs. FID is taken for a 50TJ/d Stage 1 development. Financing is secured.

Bear Scenario - \$0.05/sh

STX encounters drilling issues/appraisal results undermine size/quality of West Erregulla and/or domestic demand supports a more modest initial development and/or defers first gas timeframe. Financing is challenging.

Company Summary

Strike Energy Limited explores for and develops oil and gas resources in Australia. The company primarily focuses on the Northern Perth Basin Gas, +1Tcf West Erregulla Project located in Western Australia. Its exploration permits and applications

cover an area of approximately 700k net acres. Strike Energy Limited was founded in 1997 and is based in WA with a registered office in South Australia, supporting its Cooper Basin interests.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Strike Energy Ltd

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Market Statistics Year End 30 June

Share Price	\$0.145	A\$/sh	Directors	
Issued Capital			Chair	J Poynton
FP Ord*	1,706.2	m	MD & CEO	S Nicholls
Opt @ var prices	0.0	m	NED	N Power
Rights @ var prices	7.2	m	NED	J Rowe
Total Dil. FPOrd*	1,708.7	m	NED	S Bizzell
			NED	A Seaton
			CFO	J Ferravant
Market Capitalisation*	\$248	m		
Enterprise Value	\$224	m		
Debt	\$-	m		
Cash	\$24	m		

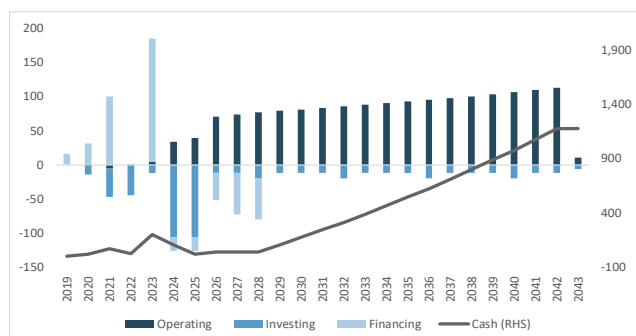
Asset Valuation	A\$m	A\$/sh
West Erregulla (50-200TJ/d gross) - 50% risked	333	0.20
Exploration	50	0.03
Corporate	(22)	(0.01)
Unpaid Capital	-	-
Other Liabilities	(18)	(0.01)
Debt	-	-
Cash	24	0.01
Total	367	0.22

F/Cast Production (A\$m)	2020f	2021f	2022f	2023f
Attrib. Prod'n (mmboe)				
Perth Basin Gas (PJ)	-	-	2.74	6.39
Total Attrib (mmboe)	-	-	0.41	0.97
Assumptions				
Avg Gas Price (A\$/GJ)	4.52	4.61	4.71	4.80
US\$:A\$	0.68	0.70	0.70	0.70

Ratio Analysis (A\$m)	2020f	2021f	2022f	2023f
CF (A\$m)	(13)	(37)	(33)	5
CF / Sh (Ac/sh)	(1)	(2)	(2)	0
CF Ratio (x)	na	na	na	44
Earnings (A\$m)	(3)	(9)	(3)	4
EPS (Ac/sh)	(0)	(1)	(0)	0
EPS Growth (%)	na	na	na	na
Earnings Ratio (x)	na	na	na	67
E'prise Val. (A\$m)	219	236	279	234
EV : EBITDA (x)	na	na	212	17
EV : EBIT (x)	na	na	na	23
Net Debt / ND+Eq (%)	na	na	69%	na
Interest Cover (x)	80	na	na	1
EBIT Margin (%)	na	na	na	33%
ROE (%)	-24%	-31%	-17%	6%
ROA (%)	-15%	-10%	-2%	4%

Div. (Ac/sh)	-	-	-	-
Div. payout ratio	-	-	-	-
Div. Yield	-	-	-	-
Div. Franking	-	-	-	-

Cashflow



Profit and Loss (A\$m)	2020f	2021f	2022f	2023f
Oil Equivalent Sales	-	-	13	31
Hedging Revenue	-	-	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	0	0	1	0
Other Revenue	-	-	-	-
TOTAL REVENUE	0	0	13	31
Operating Costs	-	-	3	6
Royalties	-	-	0	1
Dep/Amort	4	8	8	8
O/H + New Bus Dev	1	3	3	3
W/O & Provisions	-	-	-	-
EBITDA	(4)	(8)	1	14
EBIT	(5)	(11)	(2)	10
Interest Expense	-	1	3	5
NPBT	(4)	(12)	(4)	5
Tax	(1)	(4)	(1)	2
Minorities	-	-	-	-
NET PROFIT	(3)	(9)	(3)	4
Net Abnormal Gain/(Loss)	-	-	-	-
NET PROFIT After Abn'l	(3)	(9)	(3)	4

Cash Flow (A\$m)	2020f	2021f	2022f	2023f
Net Profit	(3)	(9)	(3)	4
+ Working Capital Adj.	-	-	-	-
+ Dep/Amort	-	-	0	1
+ Provisions	1	3	3	3
+ Tax Expense	(1)	(4)	(1)	2
- Tax Paid	(1)	(4)	(1)	2
Operating Cashflow	(3)	(6)	0	7
-Capex + Development	10	31	33	2
-Exploration	2	10	10	10
-Assets Purchased	-	-	-	-
+Asset Sales	-	-	-	-
+ Other	-	-	-	-
Investing Cashflow	(12)	(41)	(43)	(12)
+Equity Issues	30	-	-	-
+Loan D'down/Receivable	-	70	-	140
+Other	2	30	-	50
-Loan Repayment	-	-	-	10
-Dividends	-	-	-	-
Financing Cashflow	32	100	-	180
Period Sur (Def)	17	53	(43)	175
Cash Balance	20	73	30	206

Balance Sheet (A\$m)	2020f	2021f	2022f	2023f
Assets				
Cash	20	73	30	206
Current Receivables	0	0	0	0
Other Current Assets	0	0	0	0
Non-Current Assets	10	41	74	75
Total Assets	31	115	105	282
Liabilities				
Borrowings	-	70	70	200
Current Accounts Payable	3	3	3	3
Non-Current Liabilities	15	15	15	15
Total Liabilities	18	88	88	218
Net Assets	13	28	18	64

Reserves and Resources

	Oil	Cond	LPG	Gas	Total
	mmbbls	mmbbls	kt tonnes	PJ	mmboe
Perth Basin Gas (2C)	-	-	-	593	98.8
Total	-	-	-	593	98.8
EV / boe (A\$)					2.3

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Executive Summary

At nearly 1.2Tcf of discovered Contingent Resource, the West Erregulla discovery represents the largest onshore discovery made in Western Australia, eclipsing Mitsui operated Waitsia Field (discovered 2014). Strike Energy Ltd (ASX:STX) owns 50% of EP469, the licence containing the field and is Operator.

The West Erregulla-2 well was drilled in the Dec H of 2019 and was designed to test the geological depositional model that defied conventional thinking in the form of the Waitsia Field. The well encountered gas bearing sands in three Permian aged reservoirs: The Wagina, Kingia and High Cliff. The Kingia Sandstone – the primary reservoir for the Waitsia and Beharra Springs Deep Fields – was subsequently tested and achieved up to 69mmscf/d.

Drilling and logging data combined with the flow test results resulted in the Company tabling maiden, independently assessed 2C Contingent Resources of 1.19Tcf gross recoverable (STX 50%) from the Kingia and deeper High Cliff units. A further 273Bcf (P50) Prospective Recoverable Resource is assessed for the shallower Wagina sands (STX 50%). The gas stream was 92% methane & 5.8% CO₂, consistent with streams from the Waitsia and Beharra Springs Fields, supporting development metrics consistent with these assets.

Appraisal drilling planned to commence in the Dec H of cY'20, will further define Contingent Resource potential. Two appraisal wells (and a possible third to be decided upon by the JV by Nov) will aim to constrain existing Contingent Resources relating to the Kingia and Highcliff Sandstones as well as test the shallower Wagina sands to convert Prospective Resources to Contingent status. Considering the current 3C and P10 estimates, current seismic interpretation (combined with the West Erregulla-2 well data) support potential upside case of 2Tcf (gross recoverable).

West Erregulla is proximal to major processing infrastructure and trunklines servicing over 50% of the total domestic market. The Field is located within 20km of the Parmelia and Dampier-Bunbury Pipelines and circa 25km to tie-back to the APA operated Mondarra storage and processing plant. Current development plans are targeting a +50TJ/d Stage 1 development from CY'22 and expansion to up to 200TJ/d from CY'24. Midstream tenders are under review with BOD completed leading to commencement of FEED in the near term. FID is expected mid FY'21 following appraisal drilling results.

STX has already secured offtake for up to 100PJ by CSBP (Westfarmers) via pre-payment option signed in 2019. Marketing efforts to support the initial Stage 1 phase of investment is on-going, with additional agreements likely to be struck over the remainder of the CY'20. We have taken a conservative view on average pricing in the context of the current supply-demand dynamics of the domestic market. As we note below, State Govt policy and initiatives, as well as the commercial agreements made by the owners of the LNG export infrastructure can have a material bearing on medium term demand and pricing. However, there is already excellent fundamental value on our price assumptions, affording us the latitude to await these potential structural changes to materialise (and in what form).

By virtue of the 2018 UIL Energy Ltd (UIL:ASX) off-market takeover in 2018, STX incorporated over 700,000net acres within the Perth Basin, consequently rendering STX controlling 100% of a large area consistent with the emerging Permian gas fairway, in the northern Perth Basin. The land package is on trend or neighbours both STXs West Erregulla discovery at the northwestern extents but also the Beharra Springs and Waitsia Fields immediately to the west.

1.2Tcf – Largest Ever Onshore WA Gas Discovery

Tested at 69mmscf/d

Good Quality Dry Gas

Appraisal Drilling imminent – testing for 2Tcf

Close to Infrastructure & Mkts

Excellent Mkt Price Fundamentals for 2Tcf

Dominant Land Holding

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The ground includes 100% of permit EPA82 which contains the South Erregulla structure. Interpretation of 2&3D seismic can close the West Erregulla structure into a broader accumulation encompassing the South Erregulla prospect. An estimated 1.6Tcf of Gas In-Place (P50) exists within STX interests on a 100%. Work is being undertaken with a view to fast-tracking the prospect to drill ready status ahead of possibly drill testing in CY'21.

More broadly, activity within the basin is expected to ramp-up through FY'21, with BPT (with Mitsui E&P) planning to drill an appraisal well targeting the Kingia at Beharra Springs as well chase a number of near field (Waitsia, Beharra Springs) exploration targets. Regional exploration drilling targets will be prioritised following interpretation of the Trieste 3D survey, with several large leads identified proximal to the South Erregulla structure. Mineral Resources (MIN.ASX) in JV with Norwest Energy (NWE.ASX) have deferred the Lockyer Deeps well into FY'21. Lockyer Deeps is a large, Permian aged gas primary target, with potential to test an overlying Jurassic aged oil play.

Activity will run in parallel with a heightened period of commercial activity relating to commercialisation of gas at Waitsia to underpin the targeted up to 250TJ/day gross expansion. Increasing NWSJV ullage capacity is being targeted by a number of players, not least of which, Mitsui (JV Operator of Waitsia), which has equity interest (and assoc. tolling rights) in the infrastructure. Similarly, as West Erregulla is further appraised, the JV will be increasingly active in the market to shore-up further offtake to 'bank' Stage 1 development FID mid FY'21 and with a view to future expansion. Large and/or multiple offtake agreements will serve to build confidence around WA gas markets in terms of pricing direction and demand constructs longer term.

Mineral Resources – previous bridesmaids in the AWE takeover process ultimately won by Mitsui – has long stated its ambitions to cultivate its Compressed Natural Gas (“CNG”) business to service Midwest mining operations. Outcome of the Lockyer Deeps well in that instance could have material flow-on effect to the M&A landscape in the even the well is non-commercial.

Finally, Government policy and strategic long-term planning will also significantly influence the M&A potential for the basin. As large volumes of low-cost gas are defined onshore and proximal to the main markets, political thinking should project itself around the ability for this large resource to underwrite development of significant new downstream processing and manufacturing industries. Aluminium refining and fertilisers already represent the dominant industry consumers of domestic gas in WA. However, with the potential of multi-Tcf basin within a couple of hours north of Perth and its industrial hubs, EV focused downstream processing and petrochemical industry should be attracted to build out long term, sustainable businesses in WA. The emergence of the Perth Basin therefore has the capacity to significantly diversify the State's economy and moderate historical cyclicality.

Consequently, we can form an argument around critical mass providing a corporate driver for either MIN or the Mitsui JV (furthermore, if exploration activity proves unsuccessful), or major vertically integrated entities to aggregate upstream supply.

Near Field Potential of 1.6Tcf

3rd Party Activity Picking-up from FY'21

Multiple Commercialisation Catalysts

Clear M&A Potential

State Govt Policy to drive Demand & Price

Potential Perth Basin 'Hub'

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STX is well capitalised for the forthcoming appraisal process with \$24m in Cash and no Debt. We assess a risked Valuation for STX of \$0.22/sh, allowing for appraisal, financing and development risk and uncertainty. Unrisked, we see over \$0.40/sh Valuation; this is notable given we have assumed a conservative long-term average A\$4.50/GJ gas price received escalated at CPI.

Management are well credentialled, with significant public company, capital markets, commercial and technical experience. Political influence and connections should also be recognised, particularly in the context strong insider ownership and alignment with State and Federal interests.

There appears excellent fundamental value on conservative assumptions. Furthermore, we see material short to medium catalysts in:

- Appraisal drilling at West Erregulla (from Dec H CY'20);
- Crystallisation of Basis of Design and associate project economics;
- FEED leading to FID mid FY'21;
- Commercial outcomes relating to Waitsia and potential toll-treatment via NWSJV;
- Exploration drilling (South Erregulla - potentially CY'21);
- Onshore Perth Basin drilling activity (BPT, NWE/MIN);
- Potential M&A as a consequence.

We Initiate Coverage with a Speculative Buy and set a \$0.25/sh Price Target.

Unrisked Valuation +\$0.40/sh

Excellent Board & Management

Catalyst Rich

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Valuation & Recommendation

Valuation

Our Sum of the Parts Valuation is \$0.22/sh is broken down in the table below:

ASSET VALUATION	A\$m	A\$/sh
West Erregulla (50-200TJ/d gross) - 50% risked	333	0.20
Exploration	50	0.03
Corporate	(22)	(0.01)
Unpaid Capital	-	-
Other Liabilities	(18)	(0.01)
Debt	-	-
Cash	24	0.01
Total	367	0.22

West Erregulla - \$333m (50% risked - \$0.20/sh); \$666m (\$0.40/sh unrisked)

The key asset within our Valuation is the proposed development of the discovered gas resource at West Erregulla. Our unrisked NPV10 valuation of the development (under our assumptions discussed in the asset section below) is \$666m (or \$0.40/sh). We have then risked the valuation by 50% due to:

1. The field and its current est. recoverable Contingent Resource are still to undergo appraisal drilling;
2. The staged development (and corresponding target production levels) are still conceptual and subject to change;
3. Associated development capex is still to be determined and funding secured;
4. Operating costs relating to the development model as well as sustaining capex are also still to be defined; and
5. The nature and size of future project funding is yet to be determined and will be subject to prevailing markets.

Whilst our Statement of Cashflows assume debt funding, we do not include this in our Valuation breakdown. Rather, we elect to effectively incorporate project funding by risking the asset valuation. We therefore present the asset valuation after capex, upon commencement of first revenues, to both avoid 'double counting' the funding 'cost' but also to present the asset valuation from the perspective of an acquirer.

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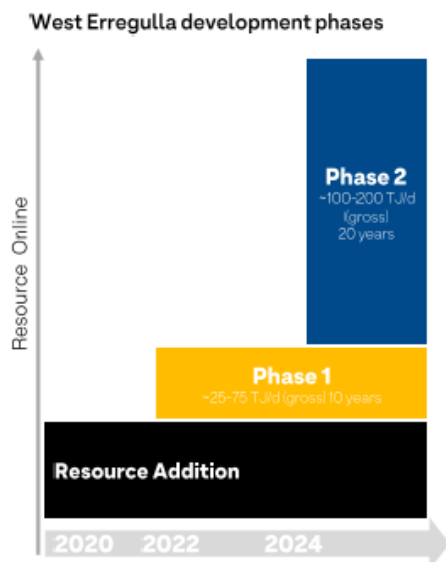
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Key Model Assumptions

NAV - \$666m discounted by 50% (\$333m) equating to \$0.20/sh.

In determining our Valuation, we note the conception development concept and corresponding stages outlined by STX:



Beyond which, we make the following assumptions:

Input	Assumption	Notes
WACC	10%	Long term average. Future adjustments subject to financing terms and additional funding sources;
Risking Factor	50%	Cum-Appraisal; Project Scope, staging, scale and costing; financing; execution
Book Value	\$30m	Reflecting amortised transaction cost relating to UIL acquisition plus G&A and drilling costs incurred to date
Recoverable Vol.	1,306Bcf	Gross
Field Life	20yrs	Cessation in FY'43
Depreciation	Straightline	Straightline applied to current 2C Contingent Resource est.
Capex	A\$2.5m/installed capacity	Nominal inclusive of drilling costs
Sustaining Capex	\$2m/yr	Net
Output	Stage 1 - 50TJ/d	Commencing CY'22
	Stage 2 - 200TJ/d	Commencing CY'25
Price Received	\$4.50/GJ	Effective Jun H, 2020; indexed at CPI
Operating Cost	\$1/GJ	Effective Jun H, 2020; indexed at CPI
CPI	2%	
State Tax	10%	
Corporate Tax	30%	

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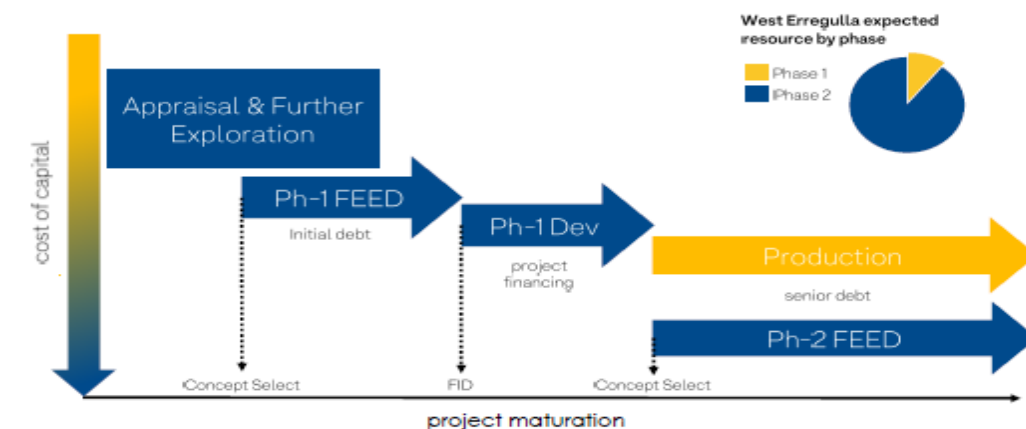
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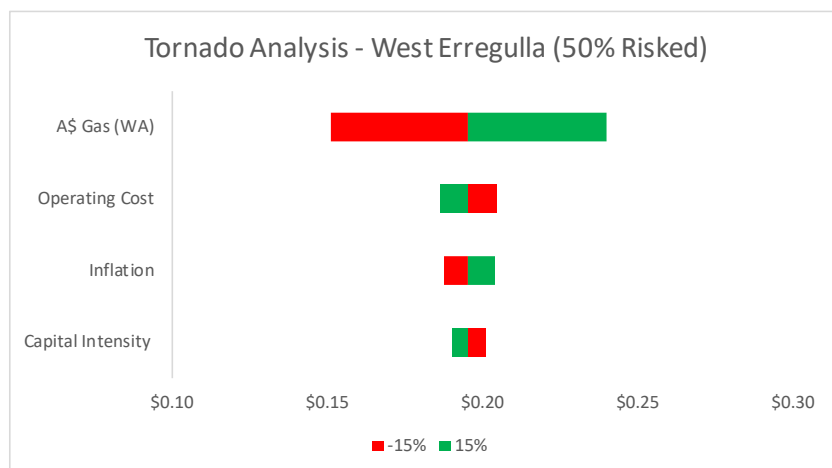
Capital requirements and sources are discussed in subsequent sections.



We do not account for any abandonment costs in our West Erregulla asset valuation, assuming infrastructure will be utilised beyond our forecast asset life via development of brownfield exploration & appraisal success.

Valuation Sensitivity

We present key input sensitivities in the tornado chart below:



The key sensitivity in terms of our valuation is clearly Gas Price assumed. We discuss the WA domestic market and pricing in detail below. Clearly though, in light of pricing being a key sensitivity in terms of valuation, gas marketing activity by STX and its JVP WGO, plus the other active participants in the domestic market, will be keenly watched in terms of steering our future forecast.

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Exploration (Perth Basin) - \$50m (\$0.03/sh)

We included \$50m in nominal exploration value. The West Erregulla-2 discovery and the Waitsia discovery before it, have changed conventional thinking about the prospectivity of Permian aged reservoirs, at depth, within the onshore Perth Basin. Similarly, the Beharra Deeps discovery by BPT (2019) has also alluded to the possible commerciality and size of the Wagina sands encountered (but not tested) at West Erregulla. STX controls a large land package on trend with the Dandaragan Trough; the depocentre coincident with the West Erregulla accumulation. Prospectivity for the South Erregulla feature has been significantly enhanced with the West Erregulla discovery. A number of other large leads have also been mapped on seismic.

The Company also owns the Walyering and Ocean Hill assets to the south of the broader West Erregulla area. The Company intends to farm-out these interests over the course of FY'21. If successful this will both provide look-through valuations and possible exposure the Company to drilling catalysts.

Southern Cooper Basin CSG - nil (\$0.00/sh)

We do not provide any valuation for the Company's Southern Cooper Basin interests as we do not believe that the data provided to the market to date justifies any expectation that the asset will be commercially viable within the medium or even long term. As discussed below, we account for associated prepayment option agreements under our 'Other Liabilities' line. We do not make any provision for abandonment costs associated with the appraisal drilling activities undertaken to date. Per the 'Investment Issues' section below, we assume that the asset is written down (ESL est. current carrying value of \$80m) in FY'24 for completeness.

Overhead - -\$22m (-\$0.01/sh)

Our Corporate costs assume a step-up in average annual rate with commencement of the Stage 1 development at West Erregulla (CY'21). We project these costs to remain static over our assumed life of the asset. We present NPV10 of future tax adjusted overhead discounted at 50% to align with risk weighting applied to the West Erregulla development.

Cash & Debt - \$24m (\$0.01/sh) & nil debt

Cash is as at Mar 31, Quarterly Report for Mar FY'20.

Other Liabilities - -\$18m (-\$0.01/sh)

Other Liabilities relate to existing prepayment agreements for the Company's Southern Cooper Basin interests as well as the ATO claim relating to R&D cash rebates received for FY'16 activity in these assets. This is discussed in detail in the 'Investment Issues' section below.

Valuation Upside

We view that upside to our Valuation will be a product of realising any or all of the following:

- De-risking via Appraisal
- Exploration
- Financing
- Development Execution
- Market demand, Gas Contracting & Pricing
- Third Party activity & M&A

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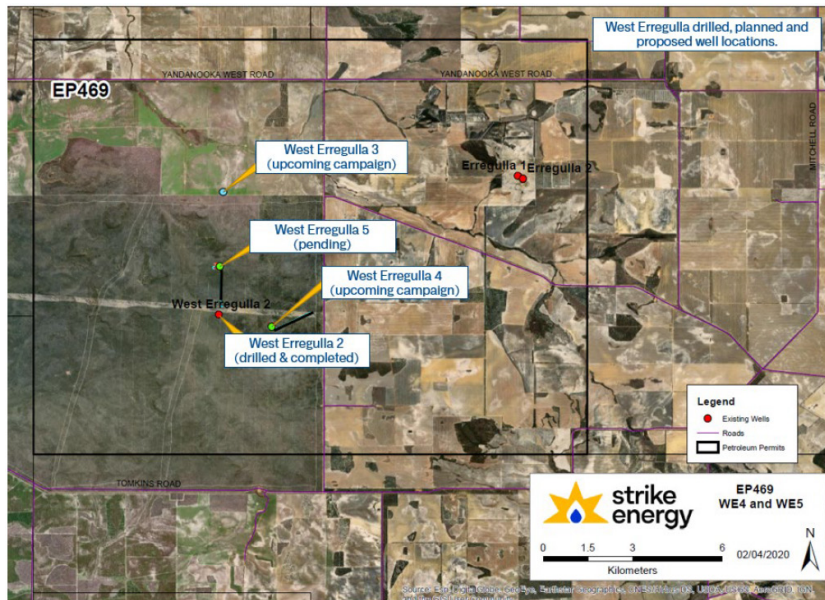
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We discuss these aspects in more detail below.

1. APPRAISAL – Over 300Bcf (net) of Potential Additional Recoverable Gas

The West Erregulla discovery will be appraised via at least a 2 well appraisal drilling program from the Dec H, CY'20. A third appraisal well, West Erregulla-5, is subject to final JV approval by no later than Nov 2020:



We currently assume development of West Erregulla recovers the 2C Contingent Resource est of c.1.2Tcf gross. Appraisal at the flanks of the mapped structure will help to constrain volumetric estimates via confirming Gas-Water Contacts, pressure gradients and importantly, reservoir quality (ie permeability and porosity which may change laterally away from the centre of the structure and from the sediment source).

The upside case is directionally captured in the 3C est of 1.4Tcf gross recoverable (ie 18% upside to our recoverable estimates). Whilst more favourable recovery factor estimates (following more amenable porosity and permeability data from the flanks of the structure) may have a positive bearing on the conversion of the Gas-In-Place to recoverable gas estimates:

West Erregulla Conventional Gas Gross (BCF) ¹						
	Discovered Original Gas in Place			Contingent Resource		
	P90	P50	P10	1C	2C	3C
Kingia	1,022	1,183	1,368	858	1,004	1,175
High Cliff	162	213	273	136	181	234
Wagina	Subject to further testing					
Current Total	1,184	1,396	1,641	993	1,185	1,409

Additionally, appraisal will focus on the Wagina sand reservoir, that was gas bearing during drilling of West Erregulla-2 but was unable to be tested. Consequently, volumetric estimates are categorised as Prospective. Effective sampling, reservoir analysis and possible flow testing would result in re-classification of these resources to Contingent category and ultimately Reserve (upon development sanction and commercialisation via Gas Sales Agreement(s)):

West Erregulla Wagina Conventional Gas (BCF) ²				
Date		P90	P50	P10
20 th December 2018	Gross	154	247	372
31 st October 2019	Gross	208 (+54)	273 (+26)	363 (-9)
	Net to Strike	104	137	182

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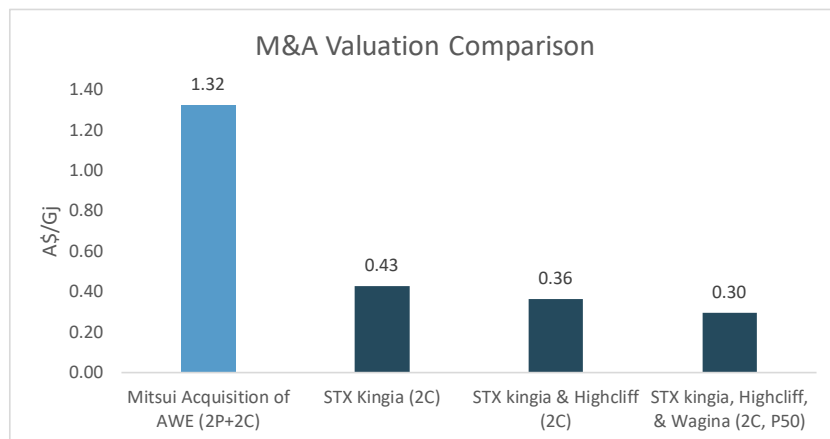
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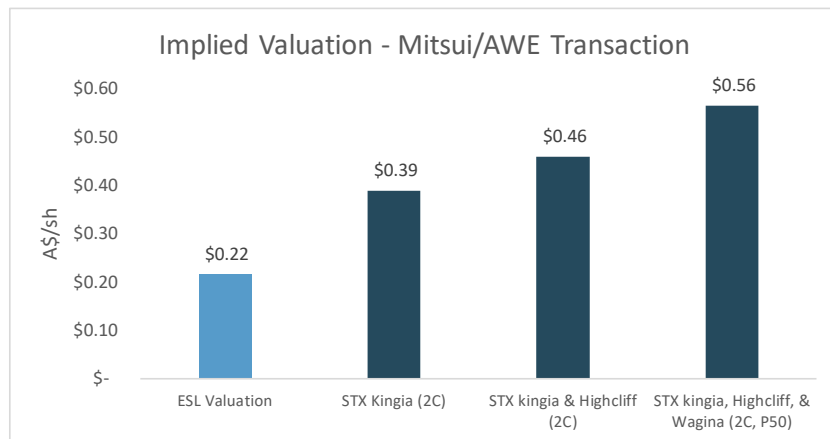
Validation of the Prospective Resource estimate would add an additional 18-30% of recoverable gross gas volumes to our estimates.

Increase in volumes as well as confidence levels (via SPE Reserves&Resources Classification) should result in higher implied per molecule value ascribed by the market.

As discussed in the section below relating to M&A, the Mitsui acquisition of AWE in 2018, priced net 455Bcf of discovered recoverable resource at \$1.32/GJ (EV:2P Reserves+ 2C Resources for Kingia). STXs 500Bcf of Kingia 2C Resource is currently ascribed \$0.43/GJ. Incorporating the High Cliff 2C Resource = \$0.36/GJ and inc. of the Wagina P50 Prospective Resource = \$0.30/GJ:



We express EV:resource look through for STX EV and share price in the chart below:



2. EXPLORATION

We currently ascribe a nominal \$50m (\$0.03/sh) value to STX Perth Basin exploration interests. As seen with the discoveries made by the West Erregulla-2 well, future exploration drilling can have material bearing on Company valuation where successful.

The current focus is on near field opportunities, particularly South Erregulla. The prospect is immediately south of the West Erregulla structure can be interpreted to lie within a broader regional closure that would encompass both features. STX holds 100% interest in EPA82, the license containing the largest portion of the South Erregulla structure (TWT amplitude over top Carynginia Formation):

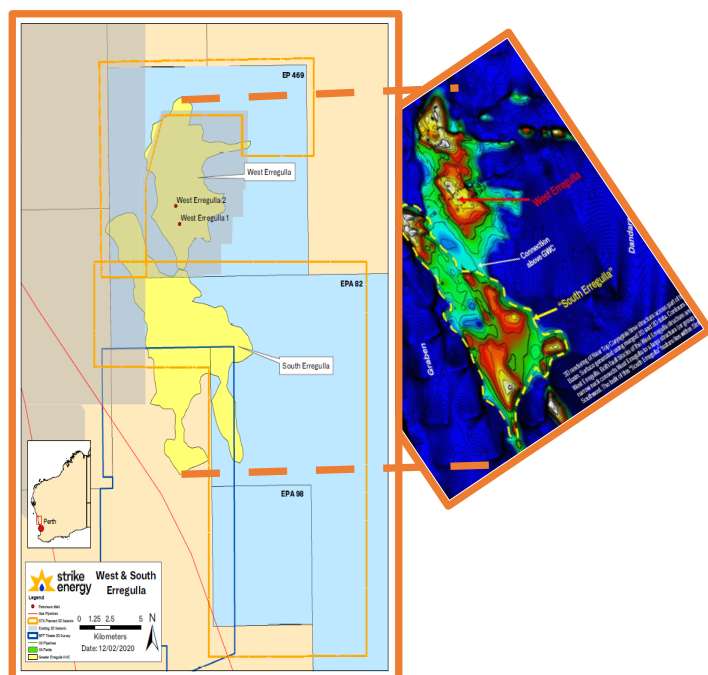
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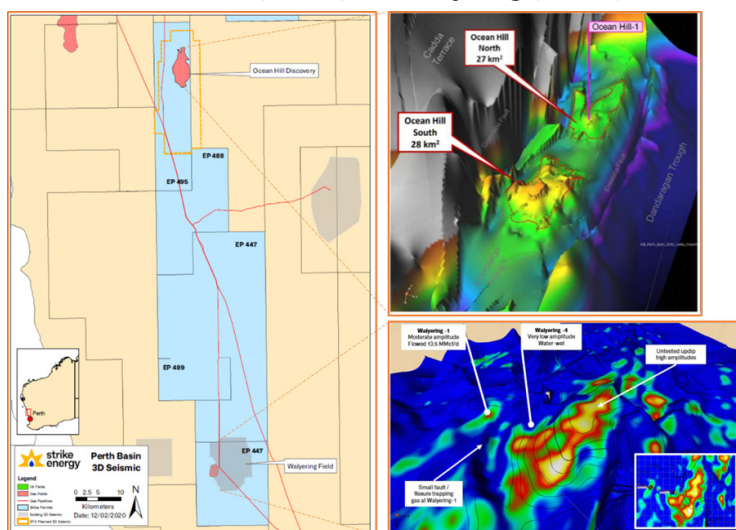


Pre-drill estimate on 100% basis, is 1.6Tcf Gas-In-Place (P50), equivalent to West Erregulla P10 GIP Contingent Resource estimate currently (arguably) substantiating the Company's \$200m EV:

South Erregulla Conventional Gas Prospective Resource OGIP (TCF) ¹			
Strike Share	Low Estimate (P90)	Best Estimate (P50)	High Estimate (P10)
100%	0.63	1.60	2.12

However, a success case and with development of West Erregulla in-train, additional discovered resources within tie-back, offer higher margin molecules and thus should be value relatively higher than those under initial development.

In the Company's southernmost tenements, there exists two discovered resources: Ocean Hill (EP495) and Walyering (EP447).



Source: Company Presentations

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Ocean Hill (EP495 – STX 100%) – drilled 1991; Jurassic wet gas target; 2C Resource est (2013) 360Bcf & 1.2mmbbls condensate.

Walysing (EP447 – STX 100%) – drilled 1971; Jurassic dry gas target; flow tested 13.5mmscfd; new 3D seismic acquired by STX indicates prospective for wet gas conventional Jurassic sand targets:

Walysing Conventional Gas and Associated Liquids Prospective Resource ^a		
	100% Strike Energy Limited	
	Gas (BCF)	Liquids (mmbbls)
P-Mean	100	2.5
Low Estimate (P90)	20	0.2
Best Estimate (P50)	63	1.2
High Estimate (P10)	263	6.3

STX has commenced a formal farm-out process on the Ocean Hill lead, seeking a full carry on 250km² of 3D seismic (~\$3.2mIn) in exchange for 40% non-operated position in the permit.

STX will also seek farm-in partners for the Walysing Prospect and the broader EP447 permit over the course of FY'21.

Success in either or both processes would enhance perceptions of the Company's exploration portfolio as well potentially introduce future drilling catalysts and the possibility of exploration discovery.

3. FINANCING

One the key considerations for our risk factor of 50% is that development of West Erregulla is cum-finance. We believe that – given the nature of the development being onshore domestic gas under (likely) term agreements – financing will likely represent a positive catalyst for the share price (refer to the share price chart below relating to Cooper Energy Ltd – COE.ASX). It will clearly remove one of the main risks around West Erregulla achieving its potential full value and therefore grounds for removing or at least reducing our risk weighting. This will lead to higher NAV for the West Erregulla development and – depending upon structuring and costs of financing – likely higher SOTP valuation on a per share basis.

4. DEVELOPMENT EXECUTION

Another contributing factor to our risk weighting relates to execution of the development. STX (as Operator) ability to deliver stage development of West Erregulla on time and budget should ordinarily be rewarded by the market. We point to COE as a peer proxy with the execution of its upstream development of its 100% owned Sole Gas Project:



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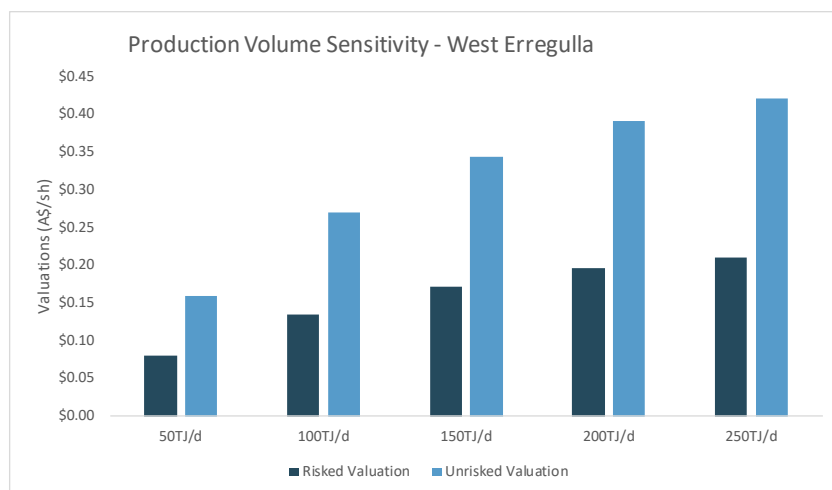
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We discuss key risks to development execution in the Risks section below. The COE chart above – ex-the COVID19 market impact – highlights the recent share price impact on account of APA Group's delays to completing the Orbost Plant, the processing hub for Sole gas.

5. MARKET DEMAND & GAS CONTRACTING

STX has already secured agreement to supply up to 100PJ of gas (at no more than 25TJ/d) to CSBP (Westfarmers) as part of a \$5m pre-payment option agreement signed in 2019 to provide funding towards the West Erregulla-2 well. This would support the base case 50TJ/d Stage 1 development assumption we have made for the purpose of our Valuation. Additional agreements signed ahead of FID for Stage 1, would provide scope to increase the scale of Stage 1. A 75TJ/d Stage 1 development (ahead of expansion to 200TJ/d from CY'25) would add 2cps to our riskied Valuation.

We reiterate that the West Erregulla JV has yet to commit to development and therefore the scale of Stage 1 and additional expansion stage(s). This represents a key caveat to our thesis. The chart below highlights influences of project scale on our riskied NAV. It makes no estimate of timing of stages but rather is linear analysis to highlight the trade-off of scale on potential asset valuations:



The real driver for larger increases to our Valuation rest with securing contract prices above our assumed \$4.50/GJ (CPI indexed) long term average. This is expressed in our sensitivity matrix below in terms of percentage changes to headline price vs SOTP Valuation:

Val/ Sh		A\$ Gas (WA)								
Inflation Rate	\$0.22	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
	15%	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.29
	10%	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.28
	5%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.28
	0%	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.23	\$0.25	\$0.26	\$0.27
	-5%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.23	\$0.24	\$0.26	\$0.27
	-10%	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27
	-15%	\$0.15	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.26

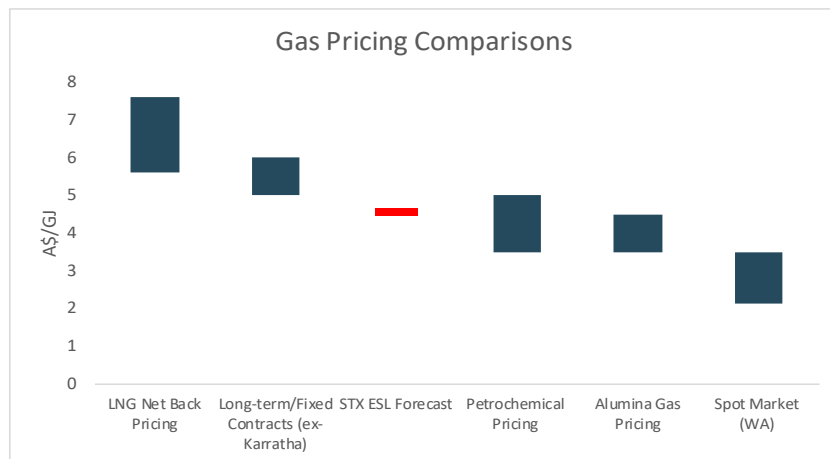
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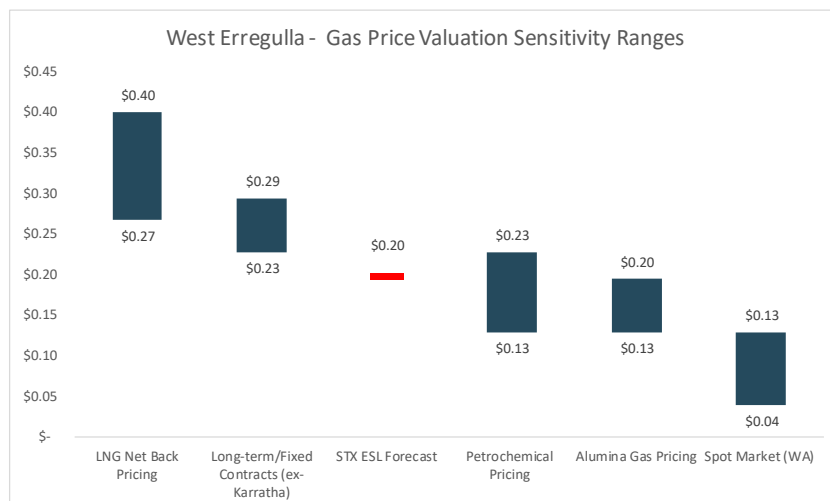
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Similarly, headline pricing in real terms can materially change project economics. We consider the various influences on domestic contract pricing in a subsequent section however we highlight key influences on contract pricing in the chart below:



And plot corresponding risked West Erregulla Development NAV relating to each in the following chart:



What must be stated is that project scale and contracting specific to STX are inherently linked. Therefore, agreements effectively resulting LNG net back pricing for domestic onshore competitors will influence West Erregulla contract pricing but arguably also volume through removal of a competing supply source.

6. THIRD PARTY DRILLING ACTIVITY & M&A

Drilling activity is planned to increase in FY'21 with both the West Erregulla JV undertaking (at least) a 2 well appraisal campaign. BPT is also planning to drill a number of brownfields Waitsia and Beharra Springs targets, step out greenfield exploration targets as well as an appraisal well of the Beharra Springs Deep discovery. Norwest Energy (NWE) and Mineral Resources (MIN) are planning to drill the Lockyer Deeps (plus stacked shallower Jurassic oil play targets) well in CY'21. Drilling activity, lest further discovery, will attract market and industry attention on the Perth Basin and its participants. Speculation and 'nearology' will drive share price appreciation.

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The M&A spectre will always hang over any new resource discovery of size. Precedence of M&A for onshore gas discoveries has occurred with AWE Ltd and the ultimate takeover by Mitsui E&P Australia AWEs 50% interest in the Waitsia Field. Mitsui paid c.\$602m for AWEs operated interest in 465Bcf of 2P Reserves (410Bcf) and 2C Resources (45Bcf) attributable to Kingia reservoir. This compares favourably to STXs \$200m EV for Operatorship and a net 2C Resource interest of 593Bcf (or 502Bcf for just the Kingia) for West Erregulla, even allowing for appraisal risk. We highlight look-thru valuation implications for STXs West Erregulla discovered resource interests in the 'Appraisal' discussion above.

More generally, STX will have corporate appeal (and increasingly with appraisal success and development certainty) on account of:

- Onshore location
- Large discovered resource
- Operatorship
- Proximity to infrastructure and markets
- 100% interest over large contiguous and prospective landholding.

We do caveat this view noting the current form of the West Erregulla JV. Market cap disparity of circa 2x WTX:WGO may partially be explained by STXs Operatorship and due to WGO remaining underfunded. However, this alone may complicate justification for approaching STX and at a premium citing this relativity. A lack of funding capacity on the minority partner's side may also detract from the appeal of assuming an interest in the JV (depending upon the terms of the JV and Joint Operating Agreement). Consolidation of the JV – already an approach tried by STX and rebuffed by WGO (refer ASX releases: March 2020) – would enhance the corporate appeal of the resulting single entity. The sticking point remains the two controlling interests relating to WGOs two founding directors. As always, nothing is straightforward in business, let alone overlaying the hubris of the E&P sector.

We contest appetite for large onshore, Australian domestic market facing gas assets, would ordinarily be high by large infrastructure and E&P businesses looking to establish a stable earnings beach-head. Prior to Mitsui's approach for AWE, takeover activity was initiated by CERCG, a Chinese multinational minerals and energy entity.

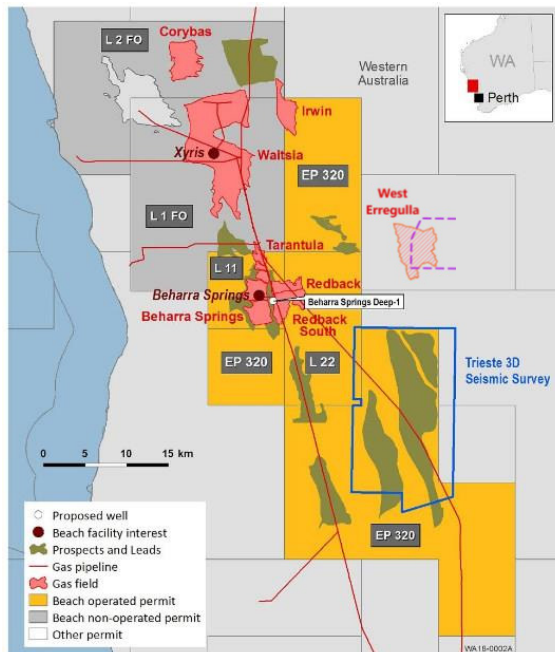
In the interim, the outcome of both Mitsui and BPTs negotiations to access NWSJV infrastructure may have a bearing on the M&A landscape longer term. Particularly in the event the JV is able to secure term and ullage. In addition, disappointing outcomes from BPT-Mitsui drilling under this scenario, may prompt JV participants to look to inorganic sources of additional supply that might cheaply be tied into their planned gathering and processing infrastructure:

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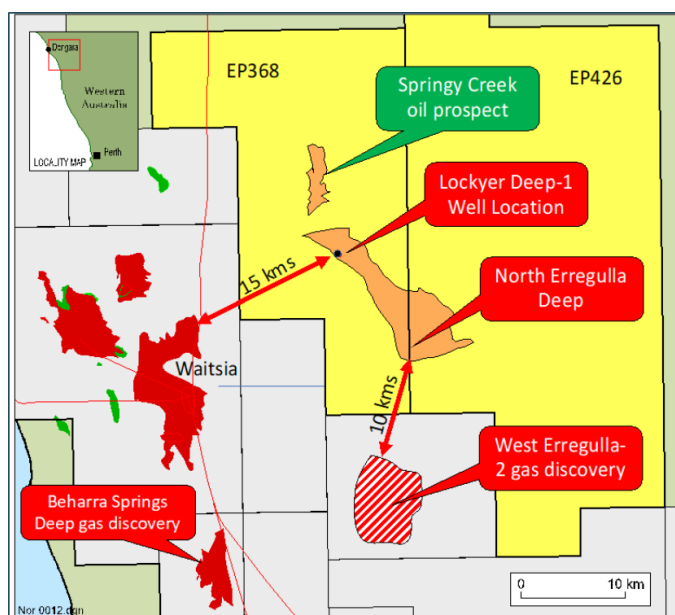
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We see a similar scenario occurring in relation to MIN and its organic search for large gas resources to meet its Compress Natural Gas business growth ambitions. MIN was an unsuccessful bidder in the AWE takeover process and publicly stated a desire to secure large gas resources to build a CNG business to supply the Midwest mining industry. Its initial foray in the space was arguably disappointing, with its equity stake in Empire Oil & Gas Ltd (EGO.ASX now delisted) ultimately converted to full ownership (as Energy Resources) after the key Red Gully asset failed. MIN has subsequently taken a 17.4% stake in NWE as well as 78% and 80% operating interests in the two permits containing the Lockyer Deeps/ North Erregulla (P50 – 460Bcf gross rec.) target:



In the event that Lockyer Deep-1 proves non-commercial, MIN would effectively remain unsatiated. As outlined above, STX would otherwise meet a number of MINs stated and implied objectives.

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Price Target - \$0.25/sh

Our Price Target is set ahead of our Valuation. We expect positive momentum in the stock as STX nears commencement of its appraisal drilling campaign later in CY'20. We identify significant near-term catalysts as:

- Appraisal drilling at West Erregulla (from Dec H CY'20);
- Crystallisation of Basis of Design and associate project economics;
- FEED leading to FID mid FY'21;
- Additional Gas Sales Agreements;
- Commercial outcomes relating to Waitsia and potential toll-treatment via NWSJV;
- Exploration drilling (South Erregulla - potentially CY'21);
- Onshore Perth Basin drilling activity by neighbouring operators (BPT, NWE/MIN);
- Potential farm-out of the Walpyring and Ocean Hill permits (FY'21)
- Potential M&A as a consequence.

Recommendation - Speculative Buy

We initiate Coverage with a Speculative Buy recommendation, reflecting the current technical and commercial uncertainties outlined in relation to our West Erregulla valuation. The West Erregulla gas development project will be systematically de-risked as it successfully undertakes:

1. Appraisal drilling;
2. Development engineering and costing;
3. Scale of each stage of development;
4. Final Investment Decision;
5. Gas Sales Agreements;
6. Financing; and
7. Development execution to first production.

Achievement of these objectives will warrant review of recommendation at each milestone.

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Investment Issues

STX is pure play, onshore, domestic gas exploration-development Company. It has domestic gas market facing assets in South Australia and Western Australia. Its Perth Basin interests have increasingly become the main focus of the business, particularly following its successful appraisal-exploration well at the West Erregulla gas project.

Reserves & Resources

Reserves – nil.

FID for Stage 1 development of the West Erregulla is targeted for the Dec Q of FY'21. The initial phase of development will at least provide sufficient production capacity to meet the 100PJ provided for under the Option Agreement signed with CSBP Ltd in May, 2019. FID will trigger conversion of the CSBP and any additional volumes sold under contract, to Reserve category.

Resources (as at Nov, 2019) – 593Bcf net (2C)

Post the completion of testing of the Kingia Formation at the West Erregulla-2 discovery, STX engaged Igesi Consulting Pty Ltd to assess contingent resources for the Kingia and High Cliff Formations per the SPE-PRMS (2018) Guidelines.

The gross independently assessed, unrisks (ie pre-development), Contingent Resource gas-in-place & recoverable gas volumes are summarised below:

West Erregulla Conventional Gas Gross (BCF) ¹						
	Discovered Original Gas in Place			Contingent Resource		
	P90	P50	P10	1C	2C	3C
Kingia	1,022	1,183	1,368	858	1,004	1,175
High Cliff	162	213	273	136	181	234
Wagina	Subject to further testing					
Current Total	1,184	1,396	1,641	993	1,185	1,409

West Erregulla Contingent Resource Statement (dd. Nov 11, 2019). Volumes are stated gross (STX net 50% interest) and unrisks

As discussed in 'Valuation Upside' section above, appraisal of the Wagina Sandstone via effective production flow testing, may result in material additional Contingent Resource volumes being added to inventories. Post the West Erregulla-2 well, analysis of the drilling and logging data sets prompted re-assessment of existing pre-drill Prospective Resource estimates for the unit. This information was released with the maiden Contingent Resource Statement and is summarised in the table below:

West Erregulla Wagina Conventional Gas (BCF) ²				
Date		P90	P50	P10
20 th December 2018	Gross	154	247	372
31 st October 2019	Gross	208 (+54)	273 (+26)	363 (-9)
	Net to Strike	104	137	182

West Erregulla Prospective Resource Statement (dd. Nov 11, 2019). Volumes are stated gross/net, recoverable and unrisks

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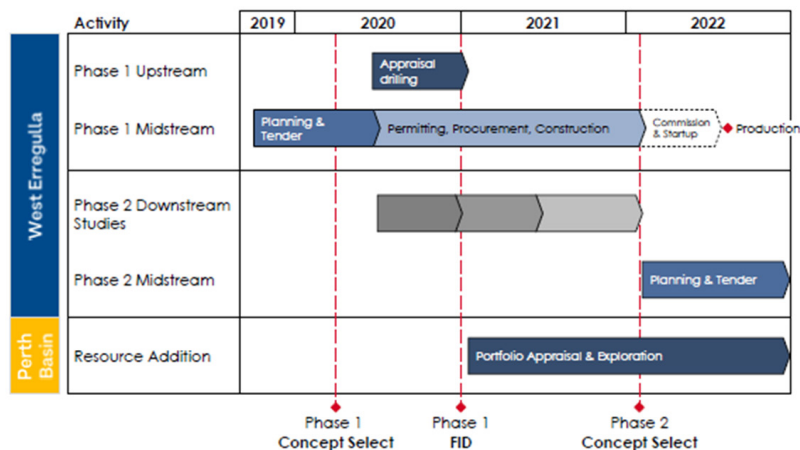
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Development Timeline

STX's indicative timeline is outlined in the summary gant chart below (Nov 2019). As noted, ESLs commencement of production (commissioning) is forecast for Jun Q CY'22 for Stage 1 and commencement of Stage 2 assumes commissioning from Jun H of CY'25.

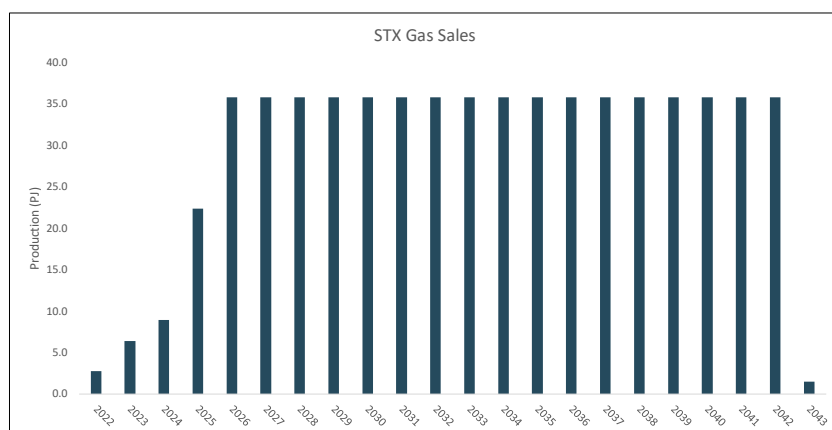


Production Forecast

EZL's production outlook for STX assets is summarized in the chart below. NB: we do not make any assumptions around:

1. Further exploration success;
2. New acquisitions;
3. The South Cooper Basin CBM Project.

We do make assumptions regarding the staging and associated scaling of the proposed West Erregulla gas development. This takes into consideration our interpretation of the forward outlook for the WA gas market as well as Company stated objectives:



Source: Euroz and Company data and estimates

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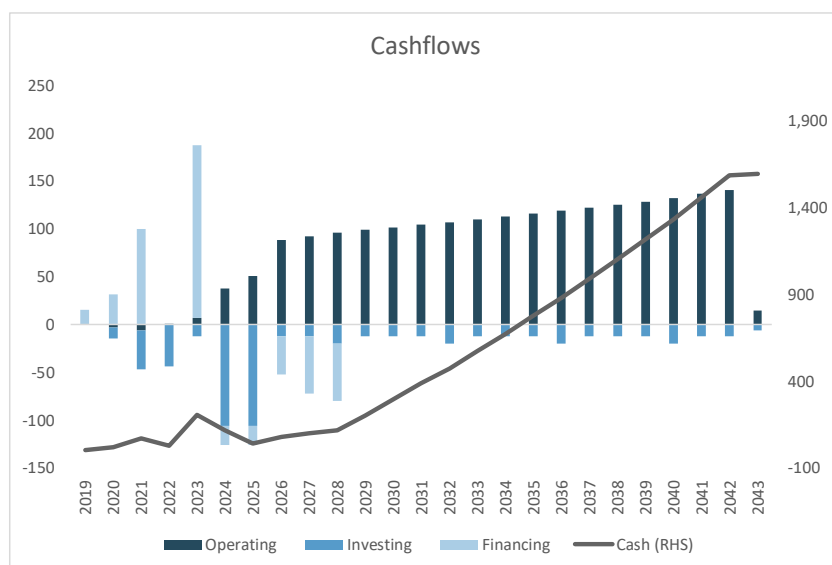
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The production forecast above assumes two phases of development (50TJ/d Stage 1 & 200TJ/d Stage 2) and is therefore subject to:

- Appraisal drilling results (from Dec H, 2020);
- Brownfields Exploration results (South Erregulla);
- Finalisation of Basis of Design (Dec H CY'20);
- Future Gas Sales Agreements (on-going);
- Market demand and corresponding project (Stage) scale;
- Final Investment Decision Stage 1 (end CY'20); and
- FID Stage 2 c.FY'23.

Earnings and Cash Flow

The chart below plots operating cashflow vs financing and investing cashflow and the cumulative group cash position under our published assumptions regarding two phased development of West Erregulla:



Our forecast earnings and cash flow are based upon the production forecast outlined above. Gas prices received are discussed in detail later in the report. For the purpose of this analysis, we currently assume A\$4.50/GJ from Dec FY'20 indexed at 2% p.a (our long-term CPI forecast). We inflate our opex assumption at the same rate.

On a nominal basis, our annual EBITDA forecast for West Erregulla are:

Stage 1 (50TJ/day gross) – A\$30m/yr net

Stage 2 (200TJ/day gross) – A\$120m/yr net.

Our current operating costs are assumed at \$1/GJ under a Build-Own-Operate model at A\$2.50/TJ/day of installed gross capacity. However, these estimates are subject to change as the Basis of Design/Concept Select process is finalised in terms of Build-Own-Operate vs Engineer-Procure-Construction-Management (third party) or a combination utilising neighbouring infrastructure (Mondarra). And capex and opex benchmarked numbers are provided to the market.

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Peer Comparisons

We have looked at the ASX universe of Producer/near-term Producers. The oil and gas sector – per typical resource sector peers – shows marked differences in implied valuation for recoverable inventories by virtue of commercial maturity:

Producer		Price	Mkt Cap	EV	2P	2P	Avg Prod./			EV/	EV/
Company	Ticker	(A\$/sh.)	A\$m	A\$m	Reserves	%Gas.	day	EV/2P	EV/	Flowing	EBITDA
					(mmboe)		(mboe)		(2P+2C)	(A\$/	FY+1
										boepd)	
Woodside Petroleum	WPL	\$21.40	21,072.2	23,686.1	1,255.9	86%	263.0	18.9	3.3	90,046.2	5.6
Origin Energy	ORG	\$5.24	9,492.9	15,565.9	790.7	100%	124.8	19.7	15.7	124,685.8	5.2
Santos Ltd	STO	\$4.65	9,957.1	14,751.7	1,024.1	92%	194.6	14.4	5.2	75,818.6	5.0
Oil Search Ltd	OSH	\$2.74	5,795.1	10,410.0	442.1	85%	80.1	23.5	6.1	129,948.3	9.9
Beach Energy Limited	BPT	\$1.46	3,409.8	3,329.8	329.4	82%	75.4	10.1	6.5	44,141.5	3.2
Cooper Energy Ltd	COE	\$0.38	626.3	710.7	52.3	97%	3.0	13.6	7.6	233,502.3	12.1
Karoon Energy Ltd	KAR	\$0.56	312.4	637.8	55.0	0%	16.9	11.6	4.1	37,823.9	na
Senex Energy Limited	SXY	\$0.20	298.7	275.6	111.4	93%	3.6	2.5	2.3	76,610.6	5.4
Byron Energy Ltd	BYE	\$0.15	121.6	121.8	44.2	61%	1.4	2.8	2.8	90,033.4	-39.4
Central Petroleum	CTP	\$0.07	52.8	98.4	25.7	97%	5.0	3.8	1.5	19,510.4	4.6
Horizon Oil Limited	HZN	\$0.05	69.0	64.4	4.3	0%	4.3	15.1	0.5	15,112.5	2.6
Australis Oil & Gas	ATS	\$0.02	22.7	52.2	62.1	0%	1.8	0.8	0.2	28,259.2	2.6
Otto Energy Limited	OEL	\$0.01	28.8	39.5	7.8	33%	2.7	5.1	5.1	14,726.3	3.1
Buru Energy	BRU	\$0.09	39.3	11.2	0.0	na	1.0	na	0.1	11,683.7	na
Triangle Energy Ltd	TEG	\$0.03	10.8	6.7	1.7	0%	0.7	3.9	3.9	9,522.6	na
Tap Oil Limited	TAP	\$0.07	31.7	-13.1	1.9	0%	1.6	-7.0	-0.7	-7,978.7	na
Average							48.7	9.2	4.0	62,090.4	1.7

Euroz, iress and Company data

STX is no different and consequently can be expected to re-rate as the Company advances West Erregulla development through appraisal, development and finally to production:

Developer/Explorer		Price	Mkt Cap	EV	Resource 2C		
Company	Ticker	A\$/sh	A\$m	A\$m	(mmboe)	Gas/Cond:Oil	EV/2C
Carnarvon Petroleum	CVN	\$0.23	367.6	249.4	116.0	42%	2.2
Strike Energy Ltd	STX	\$0.15	238.9	214.9	130.3	100%	1.6
Helios Energy Ltd	HE8	\$0.09	131.2	127.4	0.0	na	na
Warrego Energy Ltd	WGO	\$0.14	99.2	93.2	130.3	100%	0.7
Galilee Energy Ltd	GLL	\$0.36	97.7	71.6	517.9	100%	0.1
Comet Ridge Limited	COI	\$0.08	60.8	51.8	100.1	100%	0.5
88 Energy Ltd	88E	\$0.01	42.7	30.5	0.0	na	na
FAR Ltd	FAR	\$0.02	149.7	25.6	128.9	0%	0.2
Blue Energy Limited	BLU	\$0.02	21.2	16.6	191.9	100%	0.1
Calima Energy	CE1	\$0.01	10.8	8.3	196.1	100%	0.0
Real Energy Corp	RLE	\$0.02	7.4	6.0	58.9	100%	0.1
Vintage Energy	VEN	\$0.04	10.4	5.6	7.9	100%	0.7
Karoon Energy Ltd	KAR	\$0.56	312.4	-192.1	82.0	0%	-2.3
Average						77%	0.4

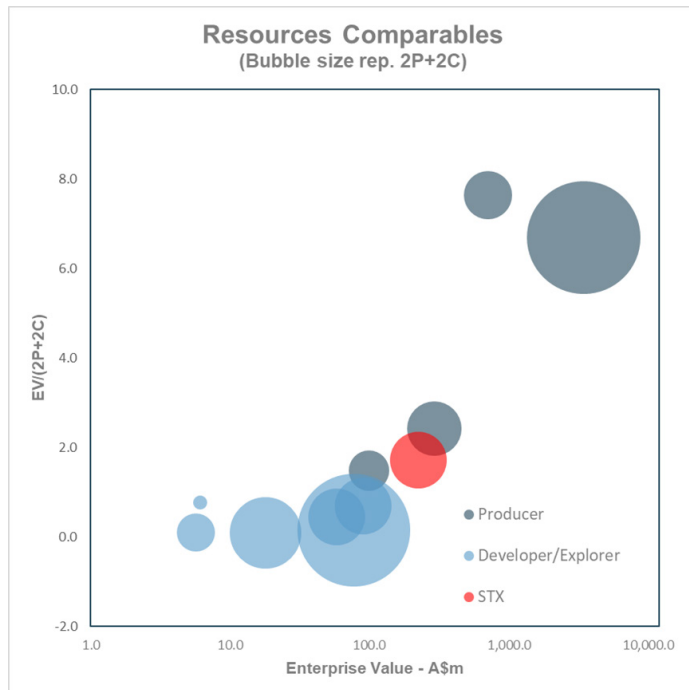
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However, it must be noted that STX is well priced versus its appraisal E&P peers. We view that this reflects the relative 'value' placed on operatorship of onshore domestic (ie fixed margin) gas businesses located in excellent jurisdictions:



The Chart above is based on Company data, IRESS and ESL data and estimates. It considers the follow 'universe' of ASX listed domestic gas explorer through producers:

Producer		Price	Mkt Cap	EV	2P Reserves	2C Resources				
Company	Ticker	(A\$/sh.)	A\$m	A\$m	(mmboe)	(mmboe)	Gas/Cond:Oil	EV/2P	EV/(2P+2C)	Type
Beach Energy Limited	BPT	\$1.46	3,409.8	3,329.8	329.4	185.2	77%	10.1	6.5	Producer
Cooper Energy Ltd	COE	\$0.37	626.3	710.7	52.3	40.8	81%	13.6	7.6	Producer
Senex Energy Limited	SXY	\$0.20	298.7	275.6	111.4	8.3	29%	2.5	2.3	Producer
Strike Energy Ltd	STX	\$0.15	238.9	214.9	0.0	130.3	100%	na	1.6	Developer/Explorer
Central Petroleum	CTP	\$0.07	52.8	98.4	25.7	41.3	100%	3.8	1.5	Producer
Warrego Energy Ltd	WGO	\$0.14	99.2	93.2	0.0	130.3	100%	na	0.7	Developer/Explorer
Galilee Energy Ltd	GLL	\$0.36	97.7	71.6	0.0	517.9	100%	na	0.1	Developer/Explorer
Comet Ridge Limited	COI	\$0.09	60.8	51.8	29.6	100.1	100%	1.8	0.4	Developer/Explorer
Blue Energy Limited	BLU	\$0.02	21.2	16.6	12.2	191.9	100%	1.4	0.1	Developer/Explorer
Real Energy Corp	RLE	\$0.02	7.4	6.0	0.0	58.9	100%	na	0.1	Developer/Explorer
Vintage Energy	VEN	\$0.04	10.4	5.6	0.0	7.9	100%	na	0.7	Developer/Explorer

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Fiscal Regime/Tax/Royalties

Tax

Australian Corporate Tax rate is 30%.

State Royalties

WA State Royalty rate for onshore gas developments is 10% p.a.

This follows the mid 2019 Treasury Laws Amendment Act 2019 ("2019 Petroleum Resource Rent Tax Reforms No. 1") that repealed PRRT for onshore Oil and Gas developments.

The proposed West Erregulla development would deem production royalties to be collected at the wellhead and retained by the WA State Govt. Per the corresponding legislation:

"The wellhead value is derived by taking the gross value of petroleum recovered, and deducting all costs incurred between a defined valve on the christmas tree (pipes and valves fitted to a production well-head to control flow of oil or gas) and the point of sale. Deductible costs are normally confined to processing, storage and transport of the petroleum recovered by the producer to the point of sale. All other costs, including those associated with exploration, drilling, recovery and abandonment, are not deductible.

The defined location of the wellhead and the methodology for calculation of wellhead value are usually included in a royalty schedule specific to each producer." (<https://www.dmp.wa.gov.au/Petroleum/Royalties-1578.aspx>)

Dividends

We do not currently forecast dividends for STX as it is currently a growth-oriented company with emerging gas development opportunities within its Perth Basin portfolio. Stage 1 cashflows should reasonably be expected to be applied to funding Stage 2 expansion and organic growth opportunities.

However, should the Company successfully execute its planned two stage development of the West Erregulla gas discovery, the stable nature of a domestic gas development with the majority of revenue derived under indexed term contracts, would lend to formulation of a dividend policy and future payments (outside of any new competing needs for capital).

Balance Sheet

Cash: A\$24.3

Debt: nil

We make assumptions around debt financing relating to proposed phased development of the West Erregulla asset. This is discussed in the Capital Requirements section below.

Non-Current Borrowings

However, we flag that the Company makes provision for \$17m in other liabilities on the Balance Sheet, relating to pre-payment agreements outstanding for both the Southern Cooper and Perth Basin assets:

Notes to the Condensed Consolidated Financial Statements

For the half-year period ended 31 December 2019

16. Other liabilities

As at \$'000	31 Dec 2019	30 June 2019
Unearned revenue – Gas prepayment agreements	17,277	17,277
Total non-current borrowings	17,277	17,277

Unearned revenue represents amounts received under the terms of various gas prepayment and option agreements pertaining to the future delivery of gas from the Group's Southern Cooper Basin Gas Project and West Erregulla Project.

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We currently assume the \$5m pre-payment liability will be recovered by CSBP by virtue of Stage I production from West Erregulla. However, we do not make any assumption regarding commercial production from the Southern Cooper Basin.

Consequently – and whilst we are not privy to agreement terms and conditions – we flag that this as an outstanding liability that may not be written off by the counterparties (Orica, Orora & Brickworks). We are not able to speculate as to the possible remedy if any in the event the Southern Cooper Basin is deemed non-commercial and abandoned.

Other Liabilities

STX is currently in dispute with the Federal Government regarding \$6.3m in R&D credits paid relating to the Company's Southern Cooper Basin activities for FY'16. Innovation & Science Australia (ISA) determined in April 2019, that STX's R&D claim for FY'16 was invalid and that the Company was liable to repay the amount it had received. STX appealed the decision in Jun 2019.

STX and the Australian Tax Office (ATO) reached an in-principle agreement in Jun, 2019, regarding a payment plan in the event that current Administrative Appeals Tribunal (AAT) and ultimately Federal Court proceedings find against STX. STX estimates at least 18mths for the AAT to conclude its findings regarding STX's appeal. In the event of negative findings, the Company may elect to pursue its appeal in the Federal Court.

We note (as announced 21/05/2019) that Innovation & Science Australia denied STX's FY18 R&D claim for payment of \$6.8 million relating to its Southern Cooper Basin appraisal activities; specifically, the Jaws appraisal program. STX has not received any R&D tax credits relating to the FY'18 claim. However, the Company was in receipt of c.\$3.7m in tax credits relating to R&D claims relating to the FY'17 financial year. Adverse findings relating to the FY'16 case may trigger a review of the FY'17 claim.

Impact to Valuation

We include \$18m as other liabilities in our SOTP Valuation for conservatism. The amount reflects the balance of pre-payment agreements specific to the Southern Cooper Basin assets and the \$6.3m in dispute with the ATO. We have made no provision for the FY'17 R&D payments received. We will review this amount in light of new information regarding future determination(s) by AAT or the courts, as well as upon future decisions regarding further activities in the Cooper Basin.

D&A Charge and Exploration Expensing

We assume a carrying value (based upon capitalisation of the UIL transaction to assume the Perth Basin interests, apportioned to the West Erregulla asset & drilling and G&A costs incurred to date) of \$20m to Dec 31, 2019. We capitalise future appraisal drilling, G&G and development capital expenditure to first production. At which point, D&A is calculated via 'straight-line' method:

(Annual production/total remaining recoverable volume) multiplied by balance of the carrying value of the asset at period end.

For the purpose of our Financial Forecasts we assume 70% of all exploration incurred will be expensed through the P&L in the following 12mth reporting period.

The c.\$80m balance of STX's carrying value of its exploration and appraisal assets (as at Dec 31, 2020) is attributable ostensibly to its Southern Cooper Basin interests. Testing of the Jaws extended reach CSG well plus data collection and analysis, is on-going. However, we view that the asset will ultimately be either divested or abandoned. We inc. an asset impairment and write-down through the FY'24 P&L.

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Hedging

STX is currently unhedged. We would assume that hedging is unlikely required under future financing, relating to development of STX Perth Basin gas field interests, on the basis that future gas developed will largely sold under Take or Pay term agreements ie fixed price with CPI linked adjustments or similar.

Currency

All financials are reported in A\$ with Jun 30 Financial Year. All costs and consumables are A\$ denominated. We assume A\$ denominated contract pricing and tolling for estimating potential future cashflows.

Capital Requirements

Given the existence of a Tier 1 counterparty offtake agreement in principle for the first phase of development and that the project concerns fixed price domestic gas, we would expect the project to support at least 70% gearing. Higher levels of gearing maybe possible (depending upon the nature of offtake agreements) however, we deem 70% reasonable when balancing the financially attractive nature of an onshore gas development from a banking perspective vs single asset risk consideration.

Our gearing assumptions are in our forecast Statement of Cashflows & Balance Sheet. Interest costs are assumed at current LIBOR plus 3% long term.

Stage 1 – 50TJ/d gross from CY'22

We estimate that on our current base assumptions that STX will require an additional \$100m in capital to fund operations and development to first gas from a 50TJ/d Stage 1 development of West Erregulla. This is inclusive of an assumed \$10m per year in exploration spend.

We assume \$70m is sourced from debt funding and an additional \$30m is sourced via either equity and/or pre-payment agreements for future gas. We have made no attempt to dilute capital structures or account for possible prepayments in our future revenue forecasts. Rather, we view that our 50% risking of the after-tax asset NPV adequately captures financing risk and form.

Stage 2 – 200TJ/d gross from CY'25

We estimate that on our current base assumptions that STX will require an additional \$200m in capital to fund operations, working capital and development to first gas from the 200TJ/d Stage 2 expansion of West Erregulla. This is inclusive of an assumed \$10m per year in exploration spend.

Expansion to Phase II (targeting 200TJ/d gross) would conceptually support higher gearing on account of existing production and cashflow, as well as the assumption that FID is predicated on long term base offtake agreements. The decision on relative gearing levels would then need to consider counterparty risk/contract terms as well as 'single asset' risk and competing needs for capital within the business.

For the purpose of our analysis, we have retained a 70% debt financing assumption, therefore forecasting \$140m in additional debt is drawn. In addition to cashflow from Stage 1, we see \$50m in equity and/or prepayments in order to meeting working capital needs and the balance of capex.

We highlight that this forecast assumes debt amortisation continues over the construction of Stage 2 expansion. If refinancing defers amortisation of the principle, this will lower the amount of additional working capital we estimate is required.

Debt amortisation otherwise occurs over 7yrs post first draw for Stage 1 in FY'21.

We iterate that STX and the West Erregulla JV have yet to outline concept select, basis of design and staging of development (and corresponding scale). Stage 2 at 100TJ/d would fundamentally change financing requirements.

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Risks

STX is a domestic gas exploration, appraisal and development focused business seeking to build a stable fixed margin production business and layer in low risk expansion options, within a stable jurisdiction. The key risks to our investment thesis are discussed below and include but are not limited to:

Jurisdiction Risk – We deem onshore domestic conventional gas exploration, appraisal and development as low risk for operators within Western Australia.

However, specific to the West Erregulla location, community consultation, education and engagement will remain a critical aspect of STXs business to ensure smooth management of surface ROW access requirements and co-existence with local farming industries.

Permitting Risks – we view that the operating framework within Western Australian mining legislation (relating to oil and gas development) to be clear with good precedence to ensure limited bureaucratic obstacles to advancing drilling and development activities.

Though not directly relating to STXs current development plans for West Erregulla, we do consider that the approvals process for potential onshore domestic gas export via LNG infrastructure may prove difficult at the very least, simply as there is no precedence and it is at odds with State Govt policy (Gas Reservation and domestic security). BPT-Mitsui and their Waitsia (via NWSJV) will be an interesting test case.

If the Waitsia JV are successful, it will remove (in part or in whole) a major competing source of domestic supply to West Erregulla, arguably improving the odds for the larger Stage 2 expansion (within the targeted timeframe). However, if unsuccessful, an additional source of domestic supply, mooted at up to 250TJ/d (though this is likely predicated on an export component), would arguably make for well supplied market. Consequently, expansion to 200TJ/d from 2025 may no longer be feasible and either be moderated in terms of scale and/or timing.

As we have outlined throughout this research note, the uncertainty around West Erregulla in terms of market demand vs scale and timing of development is one of the key reasons we elect to ascribe a 50% risk factor to our NAV for the development of the asset.

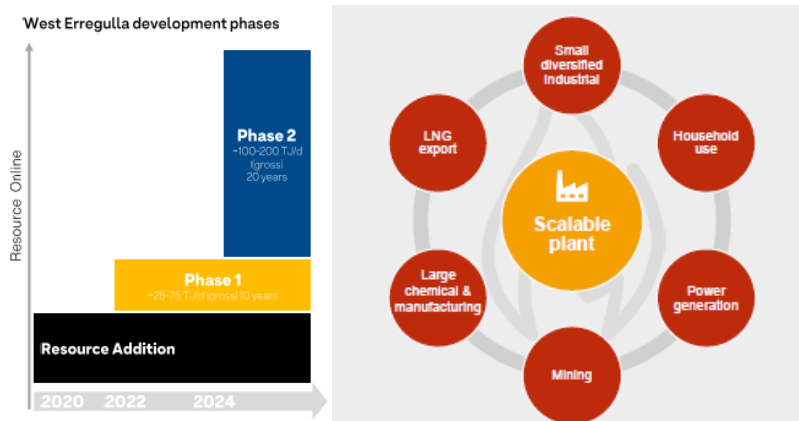
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Joint Venture Risk – We highlight that STXs West Erregulla JVP, Warrego Energy (WGO.ASX) remains underfunded for the proposed 2 (+1 option) appraisal drilling program, with only \$5.9m at Mar 31, 2020. Further to which, whilst STX articulates a 2 Stage development of West Erregulla comprising 25-75TJ/d (ESL – 50TJ/d) gross Stage 1 & 100-200TJ/d (ESL – 200TJ/d) gross Stage 2, WGO has been less committal:

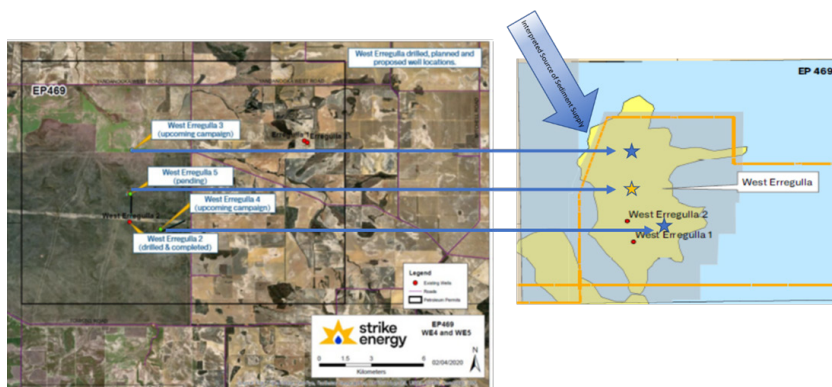


STX – 2 Stage development concept (14/11/2019) vs WGO – Scalable Plant concept (18/03/2020)

Further to which, WGO rejected STXs proposed 1.2:1 (STX:WGO) non-binding, indicative proposed scrip bid in March 2020. Alignment of the JV in terms of value and development concepts remain unresolved. We are not privy to either the Joint Venture Agreement or any Joint Operating Agreement in terms of remedy in the event of non-unilateral agreement for proposed work programs, development concepts and associated budgets. Regardless, and as we highlight above (in terms of future M&A appeal), an unconsolidated interest in the West Erregulla development may prove to impede progress in terms of protracted decision making but on account of an underfunded 50% partner.

Technical Risk – STX is about to commence its appraisal drilling campaign at West Erregulla. Current Contingent Resource estimates (independently assessed and used as a basis for our research) are based upon the single West Erregulla-2 penetration and flow test results from the Kingia sand. Based upon the geological model assumed for the West Erregulla reservoirs, as well as the technical limitations of seismic interpretation, there is risk of reservoir degradation laterally towards the flanks of the structure and more distally from the sediment supply source. This could reduce recovery factor estimates, though a lower risk consideration relative to an oil reservoir. Similarly, volumetric interpretation may be impacted encountering field water contacts high to prognosis or reservoir deep to prognosis.

However, we view these risks to be low on account to of the planned location of at least the first two wells, being more proximal to the West Erregulla-2 well and towards the centre of the mapped closure:



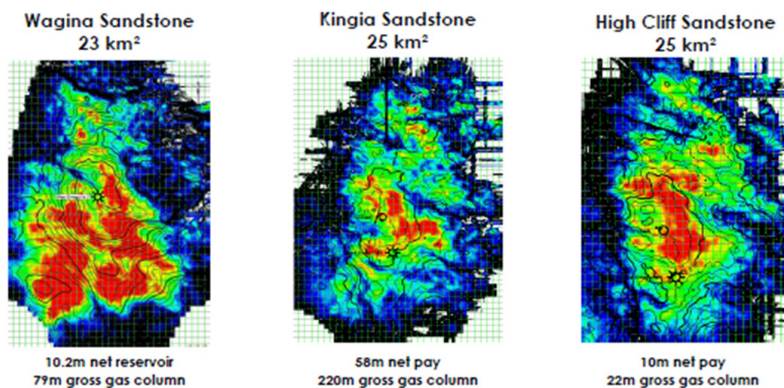
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Pressure analysis may also highlight intra-field faulting, compartmentalising the broader structure. This may impact recoverable volume estimates and/or impact development capex estimates. We flag that seismic interpretation presented does not indicate obvious large-scale faulting at the top (Carynginia Formation) of the Early Permian extension sequence containing the primary Kingia and High Cliff reservoirs:



However, subtle relief features may provide enough intra-sequence throw to create reservoir baffles. Though not specified in Company releases, we assume all volumetric calculations and structural interpretation have been undertaken on depth converted 3D seismic.

Operational Execution – STX as Operator of the West Erregulla JV, is about to undertake a 2 (with option for a third) well appraisal drilling campaign. Acknowledging that West Erregulla-2 was a relatively frontier well, in terms of the depths drilled, the well was nevertheless not without incident and cost overruns versus the original Authorisation For Expenditure. Learnings from this well will be taken into this campaign, which should otherwise reduce execution risk. However, oil and gas drilling is hazardous and not without risk. Further to which, the depths and reservoir pressures (>6,900psi) add to the operating risk profile.

Beyond which, development of West Erregulla will be technically challenging given the relative depth of the Primary Kingia-High Cliff reservoirs. At over 4,700m depth below the Rotary Table, the Kingia-High Cliff sands at West Erregulla are some of the deepest reservoirs to be developed onshore Australia. We summarise key technical elements to Kingia exploration appraisal in the Perth Basin in terms of flow testing of Waitsia and subsequently West Erregulla below:

Well	Waitsia-1	Waitsia-2	Waitsia-3	Waitsia-4	West Erregulla-2
Depth to Kingia (mDRT)	3,330	3,154	3,211	3,379	4,753
Size	5-1/2"			7-1/2"	5-1/2"
Flow Rate	25.7 mmscf/d	38.7 mmscf/d	49.5 mmscf/d	89.6 mmscf/d	69.0 mmscf/d
Test Length	60 Mins	126 Mins	156 Mins	23 Mins	60 Mins
Choke Size	56/64"	80/64"	80/64"	96/64"	128/64"
Well Head Flow Pressure	1,530 psig	1,315 psig	1,929 psig	2,395 psig	700 psig
Permeability	137 md			10-100 md	102 md

Whilst there remains plenty of global precedent to ensure effective development at these depths, the trade-off between casing diameters, production assembly and ultimately productivity capacity requirements will have a material bearing on project capital given the relative proportion of drilling costs to overall capex estimates.

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Marketing/Offtake Risk & Commodity Prices – Gas prices received are the key sensitivity in our STX Valuation. We provide the basis for both our long term \$4.50/GJ (cpi adjusted) price assumption as well as scale of each stage of development of West Erregulla, in our Western Australia Gas Markets section. Simply we have taken what we view to be the ‘mid-point’ of the broad market inclusive of indirect linkage to LNG-netback pricing (on the assumption Mitsui-BPT are successful with their Waitisia plans). Therefore, we view that this highlights the need for diversification of offtake partners as this inherently provides:

- ‘Protection’ from single counterparty risk;
- Portfolio flexibility to meet short term demand variability;
- Introduces mixture of contract terms to enable favourable financing (long term baseload) but the ability to prosecute improved market pricing periods (shorter term agreements).

A diversified contractual mix should therefore provide the equity better exposure to participating in any firming of domestic pricing.

Funding and Equity Dilution Risk – STX is yet to appraise the West Erregulla discovery, finalise development concepts/BOD or take FID. As we discuss in the Capital Requirement section above, under our development concept we outline our forecast funding requirements. This may include traditional bank debt/project financing; prepayments; hybrids; and traditional equity. Both the ability to attract funding, the form it takes (and associated future risk to the Balance Sheet) as well as the need for equity (and associated dilutionary impacts) represent risks to our Valuation and investment thesis. However, we view the risks to attracting favourable financing and minimising (relatively) equity dilution as low assuming appraisal success and additional offtake agreements are secured.

We also flag the on-going appeals process relating to the ATO claim regarding R&D payments received. This is discussed in detailed in the ‘Other Liabilities’ section above.

Market Risk – General Market Risk.

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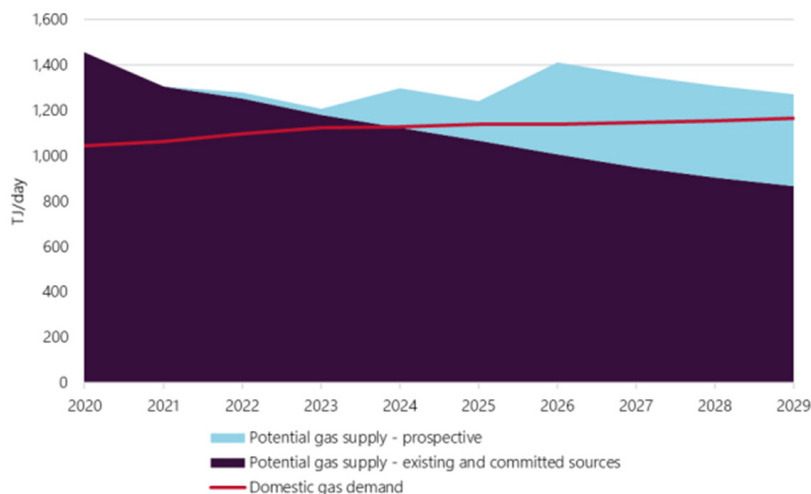
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Western Australia Gas Market

ESL assumes \$4.50/GJ gas av. price received escalated at 2% CPI from Dec H FY'20 for life of the project ie cessation FY'43.

State Supply-Demand projections are forecast by AEMO below under a base scenario:

Figure 2 Potential supply compared to gas demand under the base scenario, 2020 to 2029

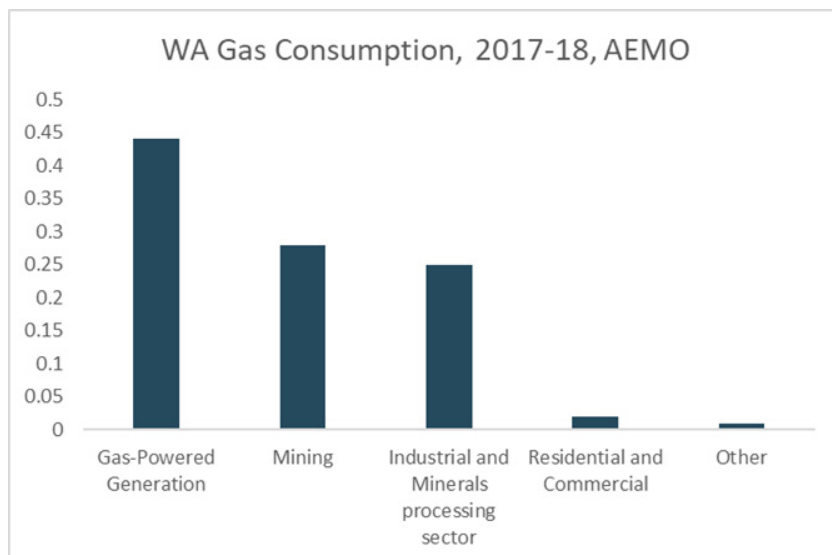


https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/wa_gsoo/2019/wa-gas-statement-of-opportunities---december-2019.pdf?la=en

Demand and supply drivers are discussed below forming the basis of our average pricing assumptions.

DEMAND

WA Domestic Gas Market Demand Breakdown per AEMO:



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Key individual consumers on a daily basis are typified below:

Facility	Category	Quantity (TJ/d)*
Alcoa Pinjarra	Minerals Processing	83.4
Yara Pilbara Liquid Ammonia Plant	Industrial	81.6
Pinjarra Cogeneration	Electricity	78.1
Alcoa Wagerup	Minerals Processing	76.2
Alcoa Kwinana	Minerals Processing	71.4
Worsley Alumina	Minerals Processing	56.7
Sino Iron Project Power Station	Mining	52.1
NewGen Kwinana CCG1	Electricity	46.9
Wagerup Power Station	Electricity	45.6
Pinjar Power Station	Electricity	40.1
CSBP Ammonia Production Facility	Industrial	27.9
Wesfarmers LPG	Other	24.6
Port Hedland Power Station	Mining	23.5
Telfer Gold Mine	Mining	22.6
Yurrall Maya Power Station	Mining	22.2
Southern System Power Station	Mining	21.7
Kwinana Cogeneration Plant	Electricity	21.6
Yarnima Power Station	Mining	17.7
HEGT	Electricity	17.3
Paraburdoo Power Station	Mining	15
Murrin Murrin Nickel Cobalt Project	Mining	13.9
NewGen Neerabup GT1	Electricity	12.1
Wesfarmers Gas Limited	Other	12
Newman Power Station	Mining	11.6
South Hedland Power Station	Electricity	11
Kwinana Nickel Refinery	Minerals Processing	10.9
Cape Lambert Power Station	Mining	9.2
Solomon Power Station	Mining	8.9
Karratha Power Station	Electricity	7.9
Maitland LNG Plant	Other	7.3
West Angeles Power Station	Mining	7.1
Mount Keith Power Station	Mining	6.8
Kemerton Power Station	Electricity	4.7
Parkeston Power Station	Mining	3.5
BP Refinery (Kwinana)	Other	2.2
Cockburn Power Station	Electricity	0
Mungarra Power Station	Electricity	0
Solomon	Mining	0
Sub-Total		975.3

*Usage on 4th May 2020, varies by day

Adapted from <https://gbbwa.aemo.com.au/#reports/largeUserConsumption>

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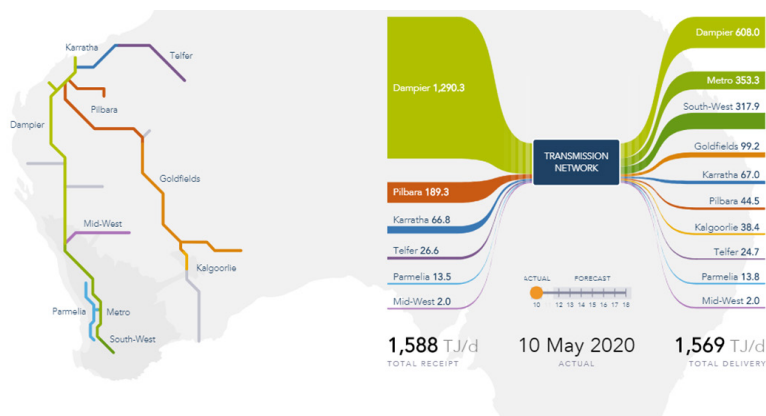
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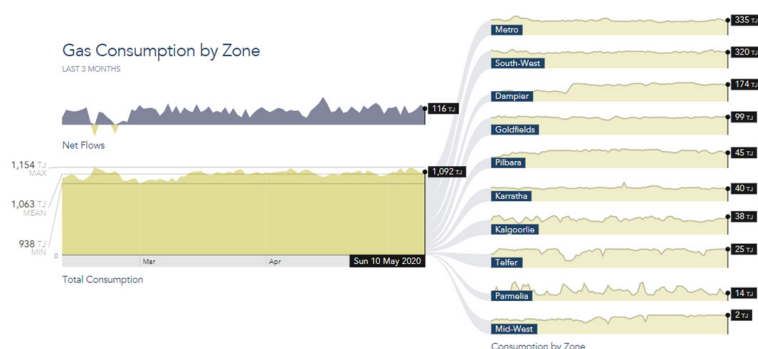
EUROZ

The WA Domestic Gas Pipeline network and regional supply capacity (c.1,600TJ/d) breakdown is summarised below:



<https://gbbwa.aemo.com.au/#home>

The WA Domestic demand (c.1,100TJ/d) breakdown by region is summarised below:

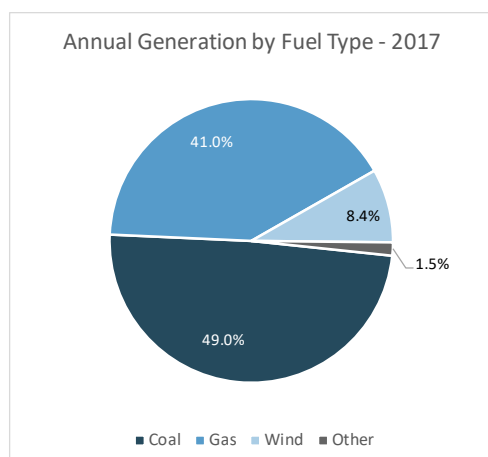


<https://gbbwa.aemo.com.au/#flows>

The Perth Basin is well placed therefore to supply the Metro & South-West corridor, which accounts for over 60% of daily demand.

Electricity Generation

As of 2017-18 the WA Gas Bulletin Board (<https://aemo.com.au/energy-systems/gas/wa-gas-bulletin-board-wa-gbb>) breaks down the WA electricity generation sector in terms of main sources of supply as:



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Demand growth for gas fired power is seen ostensibly as a consequence of the potential retirement of two units at Coal-fired Muja C power station (2022 & 2024) and the resulting transition to gas as the base load fuel source (AEMO Statement of Opportunities – December 2019).

Entire substitution of the coal fired power by gas is unlikely in the medium term as a consequence of the growth to renewable energy electricity generation.

Price elasticity will also influence the timing and scale of decommissioning of coal fired electricity generation. The rapid escalation of domestic gas prices in the Eastern States has been a result of the confluence of the onset of LNG export from Gladstone as well as policy shifts driving closure of coal fired power to be replaced by gas as baseload fuel for electricity generation. WA State Government will be keenly aware of this risk in terms of policy decisions driving shifts in electricity generation in the State as well as domestic gas export decisions.

Analysis below in the US, highlights pricing considerations when analysing relative cost of coal vs gas fired electricity generation. This is particularly notable given prevailing domestic gas prices at the time c.US\$3/GJ (2016). Henry Hub pricing has since deteriorated to below US\$2/GJ.

Power plant efficiency is defined by heat rate, whereby lower the heat rates equate to greater plant efficiency. The table below reviews efficiencies of various power plants and highlights combined cycle gas turbines as the most efficient:

Technology	Heat Rate (Btu/kWh)	Heat Rate (MMBtu/MWh)
Coal-fired steam turbine	10,000 – 12,000	10-12
Gas-fired steam turbine	10,000 – 13,000	10-13
Combined-cycle gas turbine	6,000 – 9,000	6-9
Single-cycle gas turbine	10,000 – 12,000	10-12

<https://www.americanexperiment.org/2018/11/little-math-shows-natural-gas-fired-electricity-probably-wont-cheaper-coal/>

Utilising 2016 prices, pricing per megawatthour:

Coal: \$2.06 (cost per mmbtu) x heat rate of 10 = \$20.60 per MWH

CC Gas: \$3.10 (cost per mmbtu) x heat rate of 6.6 (EIA standard) = \$20.46 per MWH

Turbine Gas: \$3.10 (cost per mmbtu) x heat rate of 10 = \$31.00 per MWH

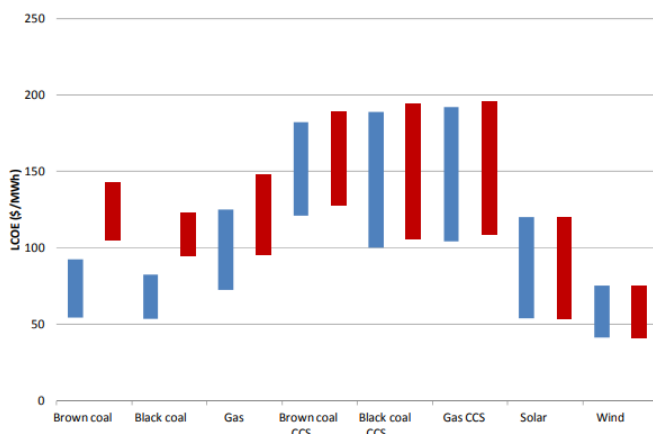
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The type of power plant that is generating electricity influences whether gas is more competitive than coal. In this analysis, gas in combined cycle plants (per Cockburn in WA) is marginally cheaper than a coal plant, but a gas fired turbine plant is nearly twice as expensive than coal. Clearly the critical consideration in future electricity generation planning and modelling is pricing. The analysis by CSIRO for the Eastern States highlights how projected gas pricing renders it relatively less competitive than coal for electricity generation. The analysis is looking at 2030 electricity generation and the impact of carbon pricing on the various electricity fuel sources and notably before the LNG-export impacts on domestic pricing seen in the latter half of the decade:



	2020		2030	
	No CO ₂ price	CO ₂ price	No CO ₂ price	CO ₂ price
Brown coal	73.1	100.8	73.3	124.0
Black coal	74.5	96.5	68.0	109.1
Gas	93.8	106.1	98.8	121.8
Black coal CCS	NA	NA	144.6	150.0
Gas CCS	NA	NA	148.2	152.0
Solar	102.1	102.1	86.9	86.9
Wind	58.4	58.4	58.2	58.2

<https://arena.gov.au/assets/2017/02/CSIRO-Electricity-market-analysis-for-IGEG.pdf>

Whilst 'green' policy will have some influence over coal fired power generation basic economic theory should colour WA Govt decision making that might otherwise result in escalating domestic gas pricing. Domestic gas export for LNG is one critical area of consideration in the near term. Likewise, we view that wholesale coal fired power substitution will likely be gradual and price sensitive, assuming the State Government wishes to maintain competitive electricity pricing.

Mining

This is one area we see significant demand growth. AEMO outlines significant demand potential via:

- 4 resources projects (Committed or Under construction) to add 67TJ/d demand by 2023
- Global longer-term Lithium/cobalt/nickel demand should increase gas requirements in medium to long term
- A further potential 10 prospective projects could create demand up to 168TJ/d by 2025

We also note initiatives by both FMG and MIN to source domestic gas to supply Pilbara and Mid-West mining activities.

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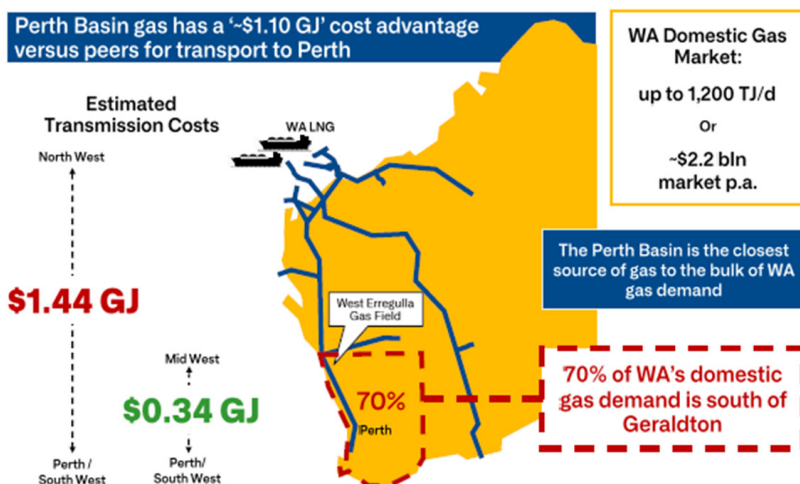
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Industrial Demand

Alcoa and CSBP remain the two largest industrial consumers of gas in the domestic market. Development of downstream battery metal processes centres in Kalgoorlie, Kwinana and Kemerton will add to the demand equation.

Industrial Demand and Govt Policy

Beyond which, the WA Government should be looking longer term at the potential of the Perth Basin to 'underwrite' the development of new secondary industries in the State. The ability to provide low cost, baseload energy and feedstock gas could result in the establishment of new manufacturing, processing and petrochemical industries in the State. Proximity to market and low operating cost of supply would engender the Perth Basin gas resources to supporting these initiatives whereby 'guaranteed' moderate cost of supply would render WA energy price/input price competitive with interstate and offshore locations:



Company Presentations - 12 March 2020

Low opex for Waitsia and West Erregulla and low transportation costs, would ensure upstream producers can make a good return on investment at or around current domestic market prices.

This is further reinforced by analysis undertaken by AEMO regarding price sensitivity in terms new demand from 11 existing gas consumers, representing over 30% of total WA domestic demand:

Table 21 Gas price estimates that could result in changes in gas consumption (A\$/GJ)

Price range	Minimum	Median	Maximum
Expanding existing or building new gas-consuming facilities ^A	\$1.50	\$2.50	\$3.80
Reducing or closing existing gas-consuming facilities	\$5.74	\$8.23	\$11.50

Source: GMPs.

A. The prices are low compared to recent historical gas prices, which averaged \$4.11/GJ in 2018. This figure was sourced from DMIRS. Latest Statistics Release - 2018 Major Commodities Resource File, at <http://www.dmp.wa.gov.au/About-Us-Careers/Latest-Statistics-Release-4081.aspx>.

Source: https://www.aemo.com.au/-/media/files/gas/national_planning_and_forecasting/wa_gsoo/2019/wa-gas-statement-of-opportunities---december-2019.pdf?la=en

As we highlight, State Government Policy and decision making regarding any new developments or initiatives that have capacity to substantially influence domestic gas pricing must be carefully considered in terms of potential demand destruction.

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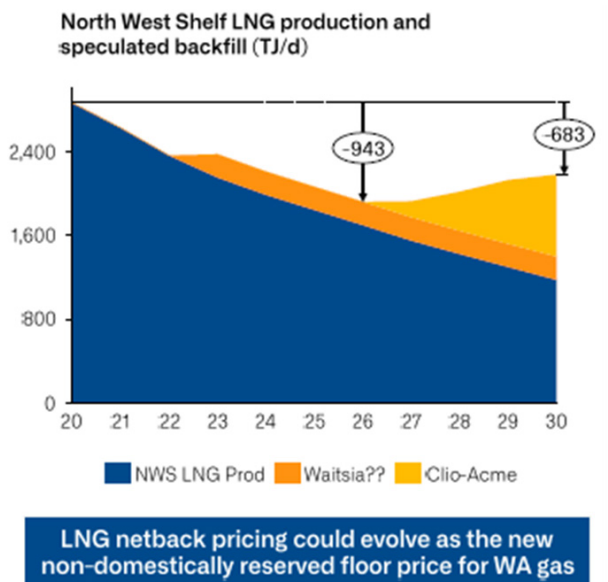
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LNG Demand

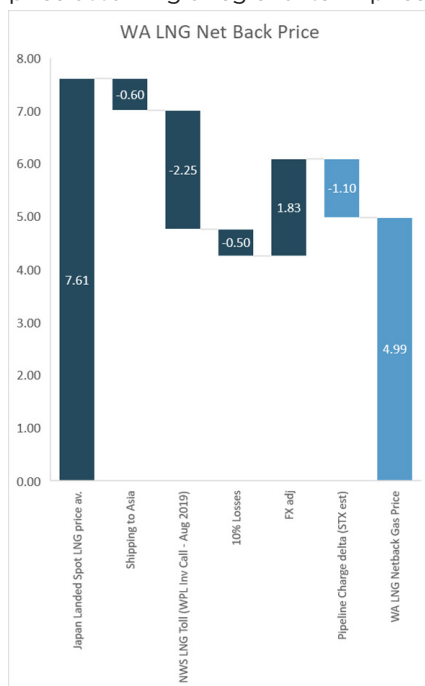
As we have noted in this document, there are initiatives afoot by the Waitsia JV to secure ullage in the NWSJV infrastructure to underpin the mooted Stage 2 expansion of the Waitsia development to c.250TJ/d. On-going delays to tie-in of Browse and Scarborough have likely improved the ability of Mitsui-BPT to secure sufficient term to advance Stage 2 expansion plans:



Source: Rystad Energy GasMarketCube, Ucube and Strike estimates

Company Presentations – 30 April 2020

The commercial driver clearly being accessing LNG netback pricing. This is estimated by STX at c.A\$5.6/GJ ex-Perth Basin. We have undertaken our own analysis and present the following LNG net back price assuming a regional term price of US\$7.61/GJ:



ESL assumptions, WPL investor briefing, Aug 2019 and STX Company Presentation – 30 April 2020

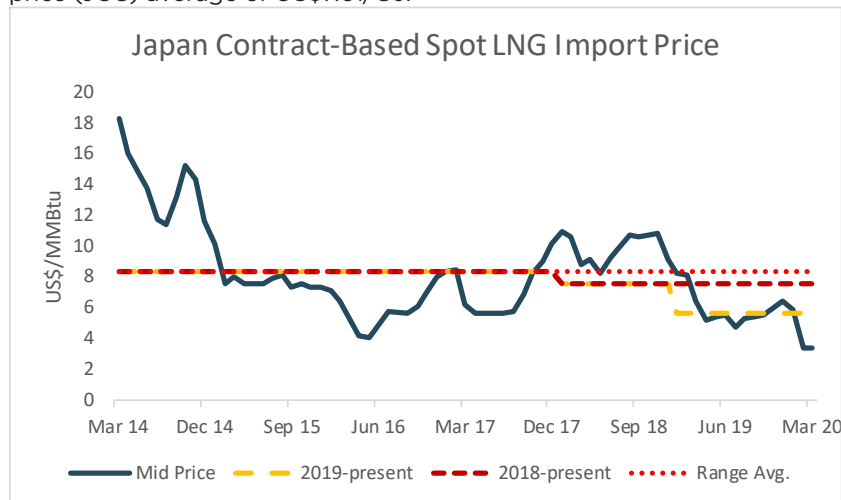
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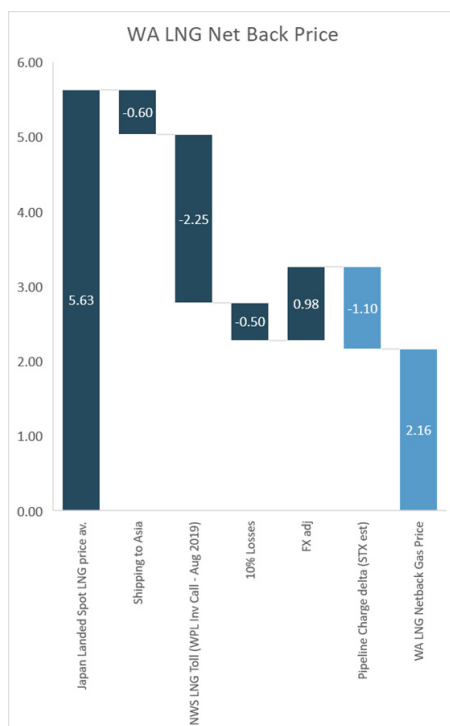
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Our base LNG price reflects the 2018-present Japan landed LNG Spot price (JCC) average of US\$7.61/GJ:



ESL assumptions, Bloomberg

The increase in major LNG export capacity (Middle East and US) is evident when looking to recent pricing trends vs the 6yr average of US\$8.36/mmbtu vs 2019-present of only US\$5.63/mmbtu. Netbacks of A\$2.16/GJ look less appealing vs WA domestic term prices given the current LNG regional pricing trend:



ESL assumptions, Bloomberg, WPL investor briefing, Aug 2019 and STX Company Presentation - 30 April 2020

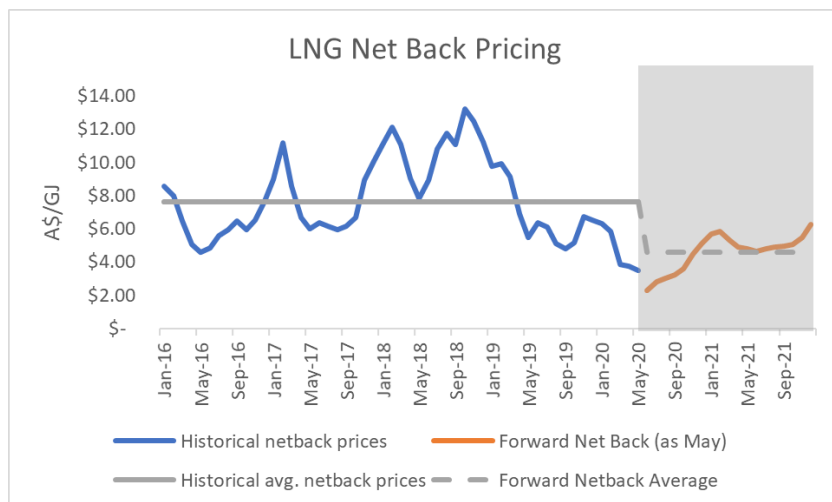
Our WA gas netback price analysis compares with the long-term netback pricing trend for the Eastern States of US\$7.61/GJ. The differential is clearly a product of the advent of domestic onshore gas (CSG) to LNG export at Gladstone:

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ESL and Mkt data (Source: <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/lng-netback-price-series>)

A general upward trend (relating to Gladstone LNG exports) is seen until 2019, where advent of major LNG export capacity came onstream Middle East and US. The US\$4.59/GJ av forecast is clearly impacted by recent new supply and the project demand destruction relating to COVID19.

Whilst unlikely long term, clearly A\$2.16/GJ netback pricing is marginal economically but below domestic pricing. This may therefore further delaying possible decision making by the Waitsia JV with respect to export, regardless of WA State Govt export approval.

The analysis by STX, Euroz and accounting for historical trends in eastern Australian domestic markets, is supportive for higher pricing in the event that domestic onshore gas is permitted to be exported. However, it should be noted that the most recent delays are COVID19 global LNG demand related, suggesting softening LNG benchmark pricing.

More generally – and per the situation on the eastern seaboard – WA State Govt policy regarding export must make careful consideration of the ramifications of permitting domestic gas exports. Looking at east coast netback pricing, there has occurred in irrevocable structural change to market prices. Therefore, the WA Govt must be cautious in balancing near term economic drivers, regarding expansion developments at Waitsia, with longer term policy and planning to perhaps look to diversifying the local economy towards a greater manufacturing and processing secondary industries focus.

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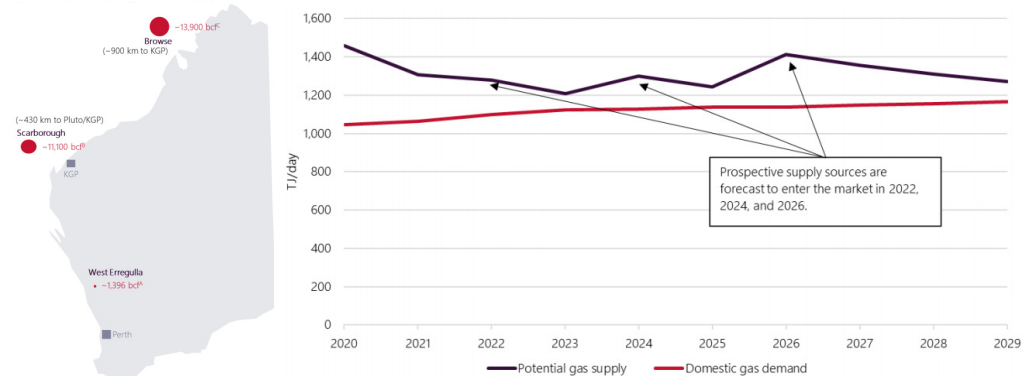
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SUPPLY

Whilst WA domestic gas demand outlook looks relatively stable (ex-any export decisions or major downstream policy initiatives), it is the supply side of the economic equation with the greatest likely medium-term influence over domestic prices.

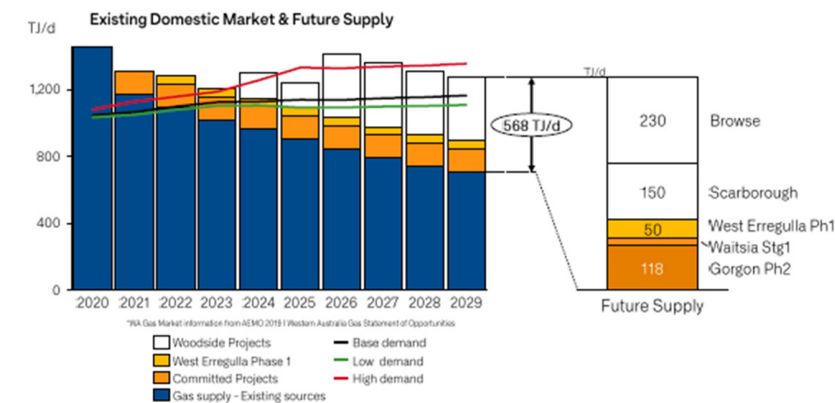
AEMO identifies West Erregulla, with Browse and Scarborough as the 3 major new prospective sources of supply, already accounting for Waitsia providing future supply:



Source: https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/wa_gsoo/2019/wa-gas-statement-of-opportunities---december-2019.pdf?la=en

Key issues remain:

- Delays due to commercial Issues – Browse & Scarborough



- Committed projects include Waitsia Stage 1 (20 TJ/d) and Gorgon LNG Phase 2 domgas plant expansion (118 TJ/d).
- The WA domestic gas market may now be anywhere between 298 and 436 TJ/d short by 2029 unless new projects like Strike's West Erregulla Phase 1 & 2 are sanctioned and brought online in a timely manner

Data Source: WA Gas Market Information from AEMO 2019 | Western Australia Gas Statement of Opportunities and Internal Strike estimates

- Technically challenging – Scarborough (deep & distal & dirty), Equus (small, distal)
- Targeting bigger volumes into export facilities – Browse
- Lack of exploration to fill the pipeline of potential near-term supply

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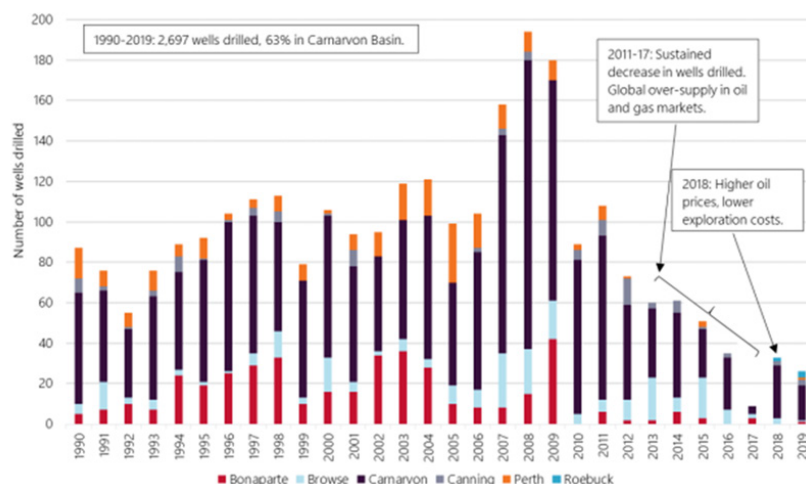
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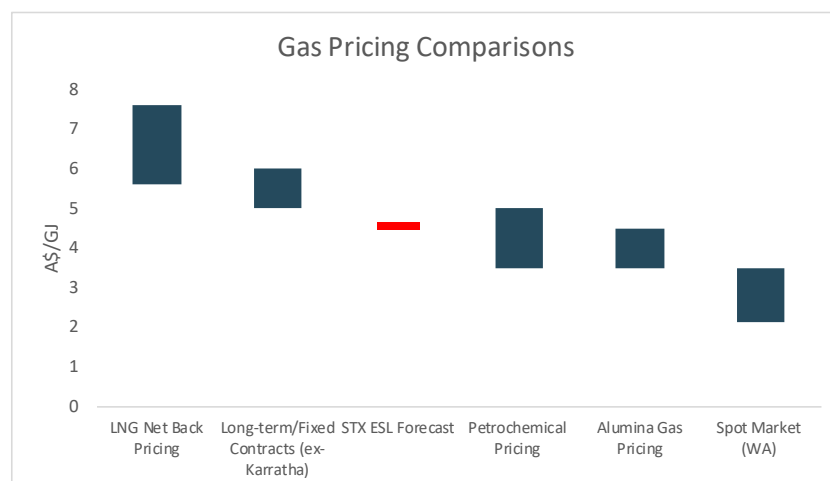
EUROZ

Figure 9 Exploration and development wells drilled (number), 1990 to 2019 (year to date)



ESL View - \$4.50/GJ (indexed at CPI) average price received

In undertaking our review of the current WA domestic gas market and the key drivers, we plot the following average price est for key supply agreements for the main consumers. Data is compiled from Company reports, AEMO, ESL channels on market data:



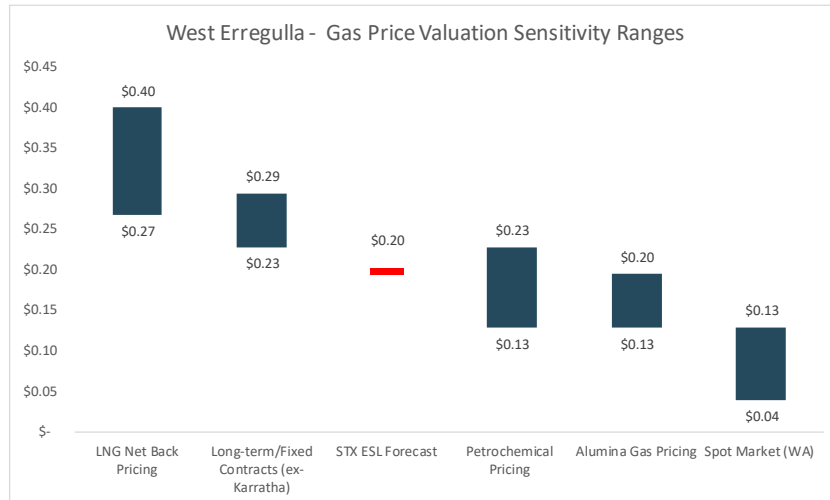
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We have then parsed these pricing ranges through our West Erregulla NPV10 Valuation. The NAVs are based on the prices representing the minimum and maximum of the range, all risked at 50% per our SOTP Valuation methodology:



Our av domestic gas price assumed long term of \$4.50/GJ (indexed at CPI) reflects the effective mid-point of the key demand drivers that influence contract pricing in the local market. The Spot Market analysis is discounted given this is a short-term phenomenon driven by the Sino Iron Devils Creek term supply agreement which is now nearing the end of its influence over the local market. Likewise, the upper end of the LNG netback pricing argument is discounted for now in light of the prevailing LNG market and the current uncertainty about State Govt policy allowing onshore domestic gas exports and the interplay with the establish domestic gas reservation policy that applies to all major LNG developments.

Pricing catalysts rest with:

- Government policy regarding domestic onshore gas exports (BPT flag Sep Q CY'20 for Stage 2 Waitsia FID);
- FID for Browse & Scarborough.

Our analysis therefore serves to reinforce the strategic value (and risk management aspect) of a diversified customer base, in terms of industry, volume and geography.

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Board & Key Executive Management

John Poynton – Chairman

Mr Poynton is Chairman of Jindalee Partners and Sapient Cyber Limited. He is a Board Member of the Future Fund Board of Guardians and a Director of Crown Resorts Ltd. From 2014 to 2018 Mr Poynton was Chair of Giving West and Chair of Christ Church Grammar School Council.

He has previously served as the Chairman, Deputy Chairman 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.

Stuart Nicholls – Managing Director & Chief Executive Officer

Mr Nicholls is an energy industry professional having worked both up and downstream units within Royal Dutch Shell.

He has experience within Finance, Commercial – Joint Ventures, Economics, Strategy and Exploration primarily from within Royal Dutch Shell's gas businesses. He has a deep knowledge of the energy system. Prior professional experience includes six years with the Australian Army in senior leadership positions.

He 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 joined Strike as Chief Executive Officer on 10 April 2017 and was appointed to the Board as Managing Director on 18 August 2017.

Nev Power – Non-Executive Director

Mr Power is the Chairman of Perth Airport and Chairman of the Foundation for the WA Museum. From 2011-2018 Mr Power held the position of Managing Director and Chief Executive Officer of Fortescue Metals Group Ltd.

During his tenure, Fortescue more than quadrupled its production to over 170 million tonnes per annum and positioned itself as the lowest cost supplier of seaborne iron ore to China.

Mr Power was previously Chief Executive of the Australian operations at Theiss and prior to that spent more than ten years in senior executive positions at Smorgon Steel Group.

In 2016, he was named WA Business Leader of the Year. Mr Power also has a long history in agribusiness and aviation holding both fixed-wing and helicopter commercial pilot licenses.

Jody Rowe – Non-Executive Director

Ms Rowe's previous work experience includes senior Commercial roles in Australia and the United Kingdom working with organisations such as BG Group-QGC, Santos, Rio Tinto and Barrick Gold with particular focus on mega projects such as GLNG & QCLNG and large scale mining operations.

Ms Rowe is a member of the senior leadership team of the Coal Seam Gas Safer Together group and the Mining Industry Participation Office for the South Australian government.

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Strike Energy Ltd

(STX \$0.15) Speculative Buy, Initiation of Coverage

Ms Rowe works as a board member for Sight for All, and is the Chief Executive Officer of Rowe Advisory working within the Oil and Gas, Mining, Industrial, Construction, Food and Agriculture industries.

Stephen Bizzell – Non-Executive Director

Stephen Bizzell is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. He is also a Non-executive Director of Armour Energy Ltd, Stanmore Coal Ltd, Renascor Resources Limited and Chairman of Laneway Resources Ltd.

Mr Bizzell was an Executive Director of Arrow Energy Ltd from 1999 until its acquisition in 2010 by Shell and PetroChina for \$3.5 billion. He was instrumental in Arrow's corporate and commercial success and its growth from a junior explorer to a large integrated energy company.

He was also a founding director of Bow Energy Ltd until its \$550 million takeover.

Mr Bizzell qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions.

Mr Bizzell has over 20 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.

Andrew Seaton – Non-Executive Director

Mr Seaton has over 30 years' experience in the resources sector encompassing a broad range of finance, strategy, commercial, investment banking, engineering and project management roles.

He has a deep understanding of domestic Australian gas markets and global LNG industry dynamics having worked with Santos Ltd for 12 years, including 6 years as Chief Financial Officer. His prior experience includes advisory, M&A, equity and debt capital markets transactions with Merrill Lynch working in Australia and New York.

Justin Ferravant – Chief Financial Officer

Background: Mr Ferravant is a Certified Practising Accountant (Australia) with over 15 years' experience in Australia and Asia.

At Strike, he is responsible for finance, tax, treasury, information technology and company secretary functions. Prior to Strike, Mr Ferravant was Finance Manager at Santos Limited for the Cooper Basin and responsible for joint venture, financial reporting and controllership.

He has held leadership roles in commercial analysis, finance and reporting at Origin Energy, General Electric Plastics (Japan) and Deloitte Consulting (Japan).

Tony Cortis – Trusted Technical Advisor and Consultant

Mr. Tony Cortis (M.Sc. Geology) of Igesi Consulting has over 29 years of industry experience, 28 of which were with Shell International, and is a member of APEGA and the AAPG. He has extensive technical and delivery experience across numerous conventional clastic and carbonate plays worldwide and also has experience across all Unconventional Resource play types: tight clastic, shale and coal bed reservoirs.

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Strike Energy Ltd

(STX \$0.15) Speculative Buy, Initiation of Coverage

Issued Capital

Shares on Issue: 1,706,248,377

Options on Issue: 36,091,250

Performance Rights: 24,724,765

Top 20 Shareholders

Rank	Shareholders	Shares (m)	Held (%)
1	M.H. Carnegie & Co.	72.9	4.28%
2	Timothy Rupert Goyder	34.9	2.05%
3	Timothy Clifton	25.0	1.47%
4	Rookharp Capital Pty Limited	23.0	1.35%
5	Orica Limited	20.8	1.22%
6	Gremar Holdings Pty Ltd	19.4	1.13%
7	Yerkin Tatischev	17.4	1.02%
8	Hazardous Investments Pty Ltd	15.8	0.93%
9	Stewart Hosken	13.3	0.78%
10	Peter Joseph	12.4	0.73%
11	Green Lite Elect. Serv. Pty Ltd	11.0	0.64%
12	Neville Power	10.6	0.62%
13	Raejan Pty Ltd.	10.0	0.59%
14	Greg Hackshaw	10.0	0.59%
15	Stephen Bizzell	9.8	0.58%
16	John Poynton	8.5	0.50%
17	Garry Bungey	8.0	0.47%
18	Vivienne Bungey	8.0	0.47%
19	MAM Pty Limited	7.7	0.45%
20	Dr. Kohlhasse V.	7.0	0.41%
Top 20 total		345.6	20.26%

**Source: IRESS, As 31-Jan-2020*

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No part of our compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in this research.

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