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**QUARTERLY ACTIVITIES REPORT, PERIOD ENDED DECEMBER 2006**

Please find attached Strike Oil Limited's Quarterly Activities Report for the period ended December 2006.

Yours faithfully

**SIMON ASHTON**  
Managing Director

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# **QUARTERLY ACTIVITIES REPORT**

## **FOR THE PERIOD ENDED DECEMBER 2006**

### **HIGHLIGHTS**

- Daily gas and oil condensate production rates increased from existing Mesquite wells after additional completions.
- Total sales revenue from gas and oil condensate was \$2.239 million for the quarter, 13% lower than the previous quarter due to the shut-in of some wells for testing, natural decline and lower gas and oil condensate prices received.
- First well drilled at Tow Creek, Colorado is preparing to test a 75 metre thick reservoir section with oil shows.
- Webernack 5 well at Mesquite Project, completed for testing of Frio Formation gas zone, subsequent to quarter end.
- McGall 1 well on the 200 billion cubic feet of gas potential Flint Prospect, due to spud in January 2007.
- Option exercised on a 26% working interest in the Florence Oilfield leases, Colorado.
- \$4.9 million Non-Renounceable Entitlement Issue closed fully subscribed, subsequent to quarter end.

## **SIGNIFICANT PROJECT ACTIVITIES**

### **PRODUCTION ACTIVITIES**

#### **USA**

- ***MESQUITE PROJECT, GULF COAST, TEXAS***

Daily gas and oil condensate production rates from the Mesquite Project were increased above the closing levels of the previous quarter after the completion of additional zones in the Wilcox Formation in two of the existing Mesquite wells.

Gross production from Strike Oil's leases at the end of the quarter was around 10 million cubic feet per day of gas and 180 barrels of oil condensate up from around 9 million cubic feet per day and 150 barrels per day at the end of the previous quarter.

Production of gas and oil condensate were 13% lower and 19% lower respectively than the previous quarter due to natural decline and some production being deferred due to shut-in while the additional zones were tested and completed.

Estimated total sales revenue from the gas and oil condensate production was 13% lower than the previous quarter due to the decreased production and lower gas and oil condensate prices received.

Consideration was given to drilling two additional Wilcox Formation development wells however inconclusive results from testing of an upper zone in the Wilcox Formation significant to the decision to drill the two wells resulted in the deferment of this drilling.

Decisions on further development drilling in the Wilcox Formation is now likely to be deferred until the results of further completions later in the life of existing wells and additional production histories are available.

Subsequent to the end of the quarter the Webernich 5 well was drilled to test incremental production potential of sands several thousand feet above the Wilcox Formation. A gas zone in the Frio Formation has been completed for testing.

## PRODUCTION AND REVENUE

The gas and oil condensate production and revenue figures for the quarter are tabled below. The majority of the production was from the Mesquite Project. Less than 3% was derived from some minor production associated with leases acquired as part of a land acquisition during 2006. Strike Oil's Working Interest (WI) in the Mesquite Project is 26.25% and its net revenue interest (NRI) is around 20%. NRI represents the company's interest net of royalties.

	Dec. Quarter <sup>(1)</sup>	Sept. Quarter <sup>(2)</sup>
<b>Production (Strike Oil WI)</b>		
<b>Gas</b> (MMcf)	214	245
<b>Oil</b> (Bbl)	3,931	4,856
<b>Revenue (Strike Oil WI)</b>		
<b>Gas</b> (\$'000)	1,934	2,145
<b>Oil</b> (\$'000)	304	437
<b>Total</b> (\$'000)	2,238	2,582

### Notes

- (1) Revenue from gas sales is delayed by two months, therefore December Quarter includes two months of estimated revenue.
- (2) Production and Revenue for September Quarter have been adjusted from previous report to reflect actual receipts for last two months of quarter.

## **EXPLORATION ACTIVITIES**

### **USA**

- ***GULF COAST, TEXAS PROJECTS***

Strike Oil continues to expand its involvement in the Gulf Coast program with further prospect generation and leasing progressing. At this stage Strike Oil has interest in around 20,000 gross acres in the onshore Gulf Coast. Operator, Cypress E&P Corporation, is at an advanced leasing stage on many of these prospects of which the larger ones are in the 200 to 500 billion cubic feet of gas potential.

The McGall 1 well, the first exploration well on the Flint Prospect which has a prospective resource size the order of 200 billion cubic feet of gas, is due to spud in January 2007. This is planned to be followed by a well to test the Rayburn Prospect with a prospective resource size the order of 500 billion cubic feet. A further prospect, Rodeo with 200 billion cubic feet of gas potential has been documented and is scheduled to be drilled later in 2007.

Many of the new prospects are of a similar nature to the Mesquite discovery and provide the opportunity to build directly on the successful exploration techniques already applied. While this region is one of the most highly explored and prolific producing areas of the USA, it still retains exceptional opportunities as deeper targets are defined by applying the latest 3D seismic technology. It is Strike Oil's intention to broaden the area of investigation along trend with the Operator and has committed to licensing further 3D seismic to maintain a steady flow of quality prospects.

- ***ROCKY MOUNTAINS PROJECTS***

Strike Oil, through the operator Comet Ridge Limited, commenced drilling of the first of 3 wells on the Bear River project and Tow Creek project areas in Colorado, Strike Oil has a 37.5% WI in the Tow Creek project and a 33.75% WI in the Bear River project.

The first well the Coal View Unit 31-4 well drilled to a total depth of 6,600 feet (2013 metres) after intersecting 245 feet (75 metres) of oil and gas shows in the main objective which is interpreted to be moderately to intensely fractured. The well has potential in its own right for up to 500,000 barrels of oil. The drilling rig that drilled the well has now moved off location and a workover rig has been set up on location to test the well.

The second well of the three well "proof of concept" drilling program, the Peltier 11-12 well spudded on the 12 January 2007. This well is located on the Bear River Prospect and is also targeting up to 500,000 barrels of oil in its own right.

Strike Oil exercised its option to acquire a 26% working interest in 4678 acres over the Florence Prospect which lies over part of the Florence Oil field, Colorado. The Florence oilfield has produced over 15 million barrels of oil. This opportunity is similar in nature to the Tow Creek/Bear River projects where the Operator

proposes to utilise directional wells to extract further oil reserves from old oil fields. A 3-D seismic program is proposed prior to any drilling.

## **AUSTRALIA**

- ***CARNARVON BASIN***

Mapping of the seismic data acquired in late 2005 continues and several prospects are being matured for future drilling. Preliminary discussions are underway to secure a drilling rig to commence operations later in 2007.

Materials are being prepared to help facilitate the farming out of selected prospects. Strike Oil has high equities and is operator of most of these prospects.

- ***COOPER EROMANGA BASINS***

In the Queensland permit ATP 633 P, processing of the Gidgee 3D seismic survey and the Gukithi 2D seismic survey operated by Beach has been completed and interpretation is in progress.

Following interpretation of the seismic, it is anticipated that at least one appraisal well will be drilled to follow up on the Gidgee 1 well which flowed over 1,000 barrels of oil per day in 1989. Secondly, an exploration well is planned to be drilled on one of the larger targets, from a portfolio of oil prospects, which have potentials in the range 0.5 to 10 million barrels of recoverable oil. This drilling is currently anticipated to commence at the end of the third quarter. Strike Oil has an option to take up to a 15% interest in the permit.

In PELA 71 and PELA 96 in South Australia, work is still progressing to finalise Native Title Agreements.

- ***KINGSTON ENERGY PROJECT***

Strike Oil's wholly owned subsidiary Kingston Energy Pty Ltd continues to evaluate the potential of the significant energy resource associated with the Kingston coal deposit in South Australia. Various options to utilise this deposit in a commercially and environmentally acceptable manner including gasification of the coal are under evaluation. Consideration will be given to initiating a pre-feasibility study upon the identification of the most favourable option.

## **DRILLING SCHEDULE AND PROSPECT INVENTORY**

Strike Oil continues to build an inventory of prospects and leads

Strike Oil plans to participate in the drilling of at least 10 wells over the next 12 months. The prospects and leads inventory will continue to be upgraded with time to provide the best chance for success and management of risk.

The proposed drilling schedule to the end of 2007 is attached. Note that the proposed drilling timings are susceptible to change due to rig availabilities, climatic conditions, joint venture and regulatory approvals and operator schedules.

## **PEOPLE**

During the quarter the Company appointed Mr Peter Gunzburg to the Board. Mr Gunzburg brings 22 years of resource experience to the Board with various senior executive roles with the Australian Stock Exchange (ASX), Eyres Reed Limited and other public resource companies.

Also during the quarter Mr Roy Woodall AO resigned as Director of the Company after over 9 years of service to the Company. Mr Woodall made a significant contribution to the development of the Company as a founding Director and investor.

## **HEALTH SAFETY AND ENVIRONMENT**

The company registered another quarter without any safety or environmental incidents.

## **CORPORATE**

During the quarter the Company announced a Non-Renounceable Entitlement Issue to issue up to 22,353,673 shares at 22 cents per new share to raise \$4,917,808. The issue closed on the 12 January 2007 fully subscribed.

## **NEXT QUARTER ACTIVITIES**

- **Test the Webernich No 5 well (Mesquite Project) Texas.**
- **Commence the drilling of the McGall No 1 well (Flint Prospect) Texas.**
- **Test the Coal View Unit 31-4 well at Tow Creek, Colorado.**
- **Finalise the drilling of the Peltier 11-12 well at Bear River, Colorado.**
- **Acquire further 3-D seismic data, Gulf Coast, Texas.**
- **Acquire new 3-D seismic over the Florence Prospect, Colorado.**
- **Commence drilling at the ATP 633 P Cooper Basin permit.**
- **Finalise the Non-Renounceable Entitlement Issue capital raising.**

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## PROVISIONAL FORWARD PROGRAM

Note: Timing of all activities subject to equipment availability, weather conditions, joint venture and regulatory approvals.

Calendar - 2007				
PROJECT AREA	January to March	April to June	July to September	October to December
<b>GULF COAST USA</b>	 		 	
<b>ROCKY MOUNTAINS USA</b>		  		
<b>COOPER EROMANGA</b>		 		
<b>CARNARVON BASIN</b>				

 Onshore well  Offshore well