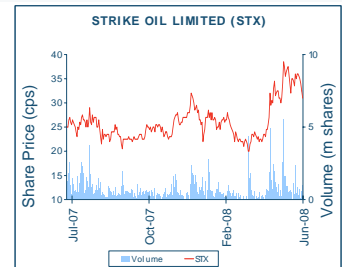


Strike Unveils Coal to Liquids Project

Brief Update Note

Stock:	Strike Oil Limited (STX 33cps)
Valuation:	78cps (prev. 63cps)
Market Cap (Full. Dil.):	\$108.0m (\$116.2m)
Issued Capital (Full. Dil.):	327.2m shares (352m)
Cash (est. 30 June 2008):	\$9m
Date:	25 June 2008
Resources Analyst:	David Wall



Source: Iress

Details:

- Strike Unveils Coal to Liquids Project** – Strike Oil (“Strike”), through its wholly owned subsidiary Hybrid Energy, has unveiled the development concept for its coal to liquids project. The project is called FuturGas and is based on a 578 million tonne JORC compliant lignite (brown coal) resource located close to major infrastructure in South Australia.
- 10,000 Barrels per Day** – FuturGas will aim to produce 100 million barrels of liquid fuels over 30 years utilising approx. 100 million tonnes of lignite. The lignite is located close to the surface and will be extracted using conventional mining processes. Then it will be compressed and heated to become a gas, which will be converted into liquid fuels using existing Fischer Tropsch technology. The project is expected to produce at 10,000 barrels per day with 40MW of electricity generation, providing forecast revenue of \$450m per year.
 FuturGas will utilise the oil and gas experience of its parent company, Strike, to ensure geosequestration of carbon dioxide emissions.
- Experienced Management Team in Place** – Strike has secured a strong management team for Hybrid Energy with a broad range of experience from alternative energy to conventional mining and power generation. It has also secured a strategic relationship with the commercial arm of the Adelaide University to assist with feasibility studies related to efficient gasification of the lignite.

Impact

- We have modelled a notional net present value, conservatively discounting the Company’s assumptions for the project. Even then, the NPV exceeds A\$500m. This gives an indication of the potential of this project and we do not believe that any value has been ascribed to FuturGas by the market. This project has been a “sleeper” within Strike for some time but until now has not been at a stage where the Company was ready to promote it.

This project compares favourable to other coal to liquids projects for several reasons:

- Many other coal to liquids projects require the use of underground coal gasification, which is often described as part art / part science and has questionable scalability. The conventional mining solution proposed by FuturGas has little technical risk and certainty can be assigned to the operating costs.
- The project is located on the coast equi-distant from Melbourne, Sydney, Adelaide and major mining areas in South Australia. It is close to existing power infrastructure and will have low cost delivery of its product to market.
- Possibly the most important factor is that the Company has a strong focus on the geosequestration requirements of the project. Other projects describe potential for in-situ storage of carbon dioxide emissions; however, recent developments cast doubt on whether this is realistic without massive cost blowouts. We believe that Hybrid Energy, through its relationship with Strike, possesses the technical knowledge to create a cost effective geosequestration solution. It is also located nearby to ideal candidates for storage reservoirs in the Otway Basin, where depleted, or dry, oil and gas reservoirs are plentiful.
- Strike continues to have excellent success at its Rayburn project (STX 22.8%) where gross production is steady at 24 million cubic feet of gas per day with 660 barrels per day of condensate. Testing commences at its Duncan-3 well within days, followed by back-to-back drilling and testing for the rest of the year. We value Strike at 63cps based on its US assets alone, with exploration upside potential greater than 100cps. We have assigned a value of A\$51.4m or 15cps to Hybrid, based on a 90% discount of our notional NPV estimate. We believe that Hybrid Energy’s FuturGas project is assigned very little value by the market, given the current share price. We rate **Strike Oil Limited** as a **Speculative Buy**.

Strike Oil Limited		Share Price				June 2008	
STX		\$0.33				BUY	
Key Market Information							
Share Price		\$0.33					
Market Capitalisation		\$108m					
52 Week High-Low		\$0.40-\$0.19					
Issued Capital		327.2m					
Issued Capital (fully diluted inc. ITM options)		352.0m					
Options		24.9m@\$A0.21					
Hedging							
Yearly Turnover/Volume		\$52.9m/194.4m shares					
Liquidity Measure (Yearly Turnover/Issued Capital)		59%					
Valuation							
Discounted Cashflow @ 7% Real		\$0.78					
Financial Performance							
	Unit	FY2007A	FY2008F	FY2009F	FY2010F		
Net Revenue	A\$m	10.2	15.8	57.1	65.5		
Total Costs/Writeoffs	A\$m	(15.4)	(15.5)	(21.8)	(22.3)		
EBITDA	A\$m	(5.2)	0.3	35.3	43.2		
Depreciation/Amort	A\$m	(3.7)	(2.2)	(3.6)	(4.3)		
EBIT	A\$m	(8.9)	(1.9)	31.7	38.8		
Net Interest	A\$m	-	0.2	0.6	1.4		
Pre-Tax Profit	A\$m	(8.9)	(1.7)	32.3	40.3		
Tax Expense	A\$m	-	-	(11.6)	(14.7)		
NPAT	A\$m	(8.9)	(1.7)	20.8	25.6		
Abnormal Items	A\$m	-	-	-	-		
Reported Profit	A\$m	(8.9)	(1.7)	20.8	25.6		
Financial Position							
	Unit	FY2007A	FY2008F	FY2009F	FY2010F		
Cash	A\$m	5.9	8.8	26.9	48.1		
Other Current Assets	A\$m	3.6	10.9	16.6	17.6		
Total Current Assets	A\$m	9.5	19.7	43.5	65.7		
Property, Plant & Equip.	A\$m	0.4	1.9	10.5	20.8		
Exploration	A\$m	20.5	27.6	34.7	41.4		
Investments/other	A\$m	2.3	1.8	1.8	1.8		
Tot Non-Curr. Assets	A\$m	23.2	31.3	47.0	64.0		
Total Assets	A\$m	32.7	51.0	90.6	129.7		
Short Term Borrowings	A\$m	-	-	5.0	5.0		
Other	A\$m	1.7	10.5	20.9	33.9		
Total Curr. Liabilities	A\$m	1.7	10.5	25.9	38.9		
Long Term Borrowings	A\$m	0.1	0.0	0.0	0.0		
Other	A\$m	0.2	0.3	0.3	0.3		
Total Non-Curr. Liabil.	A\$m	0.3	0.3	0.3	0.3		
Total Liabilities	A\$m	2.1	10.8	26.2	39.1		
Net Assets	A\$m	30.6	40.3	64.3	90.5		
Cashflow							
	Unit	FY2007A	FY2008F	FY2009F	FY2010F		
Operating Cashflow	A\$m	6.2	6.8	40.3	52.2		
Income Tax Paid	A\$m	-	-	(11.6)	(14.7)		
Interest & Other	A\$m	0.3	0.4	0.6	1.4		
Operating Activities	A\$m	6.5	7.2	29.4	39.0		
Property, Plant & Equip.	A\$m	(3.0)	(1.1)	(9.6)	(8.4)		
Exploration/Development	A\$m	(18.9)	(13.5)	(10.0)	(10.0)		
Investments	A\$m	-	-	-	-		
Investment Activities	A\$m	(21.9)	(14.6)	(19.6)	(18.4)		
Repayment of Borrowings	A\$m	-	-	-	-		
Equity	A\$m	13.8	10.4	8.3	0.6		
Financing Activities	A\$m	13.1	10.4	8.3	0.6		
Net Cashflow	A\$m	(2.2)	3.0	18.1	21.2		
Ratio Analysis							
	Unit	FY2007A	FY2008F	FY2009F	FY2010F		
Cashflow Per Share	A¢	2.0	2.2	8.7	11.2		
Cashflow Multiple	X	16.5	15.0	3.8	2.9		
Earnings Per Share	A¢	(2.7)	(0.5)	6.1	7.4		
Price to Earnings Ratio	X	(12.1)	(63.8)	5.4	4.5		
Dividends Per Share	A¢	-	-	-	-		
Dividend Yield	%	-	-	-	-		
Interest Cover	X	-	8.8	na	na		
Return on Equity	%	na	na	32%	28%		
Directors							
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Mr David Wrench		Perth, Wa, 6000					
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Mr Simon Ashton		Fax: (08) 6464 0401					
Mr Jim Durrant		Web: http://www.strikeoil.com.au					
Company Information							
Top 10 Shareholders (as at 11/09/07)							
		m shares	%				
Plato Prospecting Pty Ltd		21.03	6.4				
National Nominees Ltd		20.90	6.4				
Calm Holdings Pty Ltd		20.00	6.1				
ANZ Nominees Limited		13.52	4.1				
Pontia Pty Ltd		9.95	3.0				
S&Y Ashton Nominees Pty Ltd		8.53	2.6				
DB Angliss Pty Ltd		5.50	1.7				
Sassey Pty Ltd		5.11	1.6				
JP Morgan Nominees Australia Ltd		4.98	1.5				
Mr Brian Williams & Mrs Valerie Williams		3.10	0.9				
Production Summary							
	Unit	FY2007A	FY2008F	FY2009F	FY2010F		
*Attributable							
Liquids	mmbbl	1.00	1.10	0.48	0.51		
Gas	bcf	-	0.95	4.44	5.85		
LPG	kt	-	-	-	-		
Price Assumptions							
	Unit	FY2007A	FY2008F	FY2009F	FY2010F		
US Gas Price	US\$/mcf	7.07	8.07	9.25	8.75		
Oil	US\$/bbl	60.66	93.15	90.00	90.00		
Exchange Rate	A\$/US\$	0.79	0.90	0.89	0.85		
Hedging							
	Unit	FY2007A	FY2008F	FY2009F	FY2010F		
Total Forward Sales - Oil	mmbbl	-	-	-	-		
Forward Oil Price	A\$/bbl	-	-	-	-		
Sensitivity Analysis							
	Valuation (\$/s)	NPAT	EPS (¢)	CFPS (¢)			
Base Case	0.78	-1.7	-0.5	2.2			
Gas Price +10%	0.81	-0.9	-0.3	2.4			
Gas Price -10%	0.75	-2.6	-0.8	2.0			
Exchange Rate +10%	0.69	-2.7	-0.8	2.0			
Exchange Rate -10%	0.89	-0.7	-0.2	2.4			
Oil Price +10%	0.84	-1.7	-0.5	2.2			
Oil Price -10%	0.72	-1.7	-0.5	2.2			
*N.B. NPAT, EPS, CFPS forecasts are for FY2008							
Share Price Valuation (NAV)							
		\$m	\$/share				
Rayburn (NPV @ 7%)		111.8	0.32				
Rivoli (NPV @ 7%)		13.0	0.04				
Mesquite (NPV @ 7%)		7.1	0.02				
Exploration		96.0	0.27				
Hybrid (NPV @ 7%)		51.4	0.15				
Cash		7.0	0.02				
Corporate Overheads		(17.4)	(0.05)				
Total Debt		0.0	0.00				
Tax Losses		0.0	0.00				
Options & Other Equity		4.85	0.01				
Total		273.67	0.78				
7% real discount rate used for DCF (-10% nominal)							
Analyst: David Wall		Last Updated: 25/06/2008					
Phone: +61 8 9268 2826							
Sources: IRESS, Company Information, Hartleys Research							

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Hartleys Recommendation Categories

Strong Buy	Significant share price appreciation anticipated
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but is considered high risk
Accumulate	Buy in periods of weakness
Hold	Take no action
Reduce	Sell in periods of strength
Sell	Significant price depreciation anticipated

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