

Rayburn Upgrades Strike to Buy
Date

8 August 2008

ASX Code

STX

Share Price

28cps

Valuation

82cps

Market Cap (fully diluted)

\$91.6m (\$98.6m)

Issued Capital (fully diluted)

327.2m shares (352m)

Cash (as at 30 June 2008)

\$8.4m

Management

Jeffrey Schneider (Chairman)
Simon Ashton (Managing Director)

Top Three Shareholders

Plato Prospecting Pty Ltd (6.4%)
National Nominees Ltd (6.4%)
Calm Holdings Pty Ltd (6.1%)

Oil and Gas Analyst

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Strike Oil Limited (“Strike”, “STX”, “Company”) has continued to deliver outstanding results at its Rayburn project, onshore Texas. The Company is currently receiving net sales from Rayburn of ~9 million cubic feet of gas per day and 200 barrels of condensate per day. We expect this number to increase steadily with 2-3 wells per quarter scheduled.

Initial results from the latest well, Gilbert Freeman 2, indicate that it should produce consistently in line with previous wells that have delivered 10 million cubic feet of gas per day with 250 barrels of condensate per day. Stabilised flow rates are expected next month.

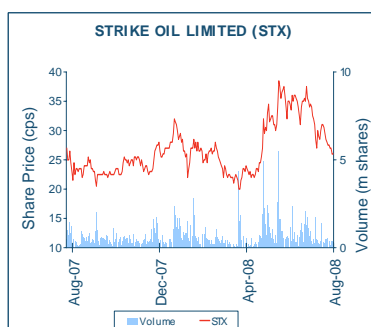
A reserve estimate, based on the wells drilled to date at Rayburn, is expected in September. This should underpin the significant resource potential of the project, estimated to be in the range of 53 – 78 billion cubic feet of gas equivalent, net to Strike.

The Company also continues to advance its Hybrid Energy coal to liquids project, which remains a sleeper that we believe is assigned little value by the market.

Due to the continued and consistent results from Rayburn, the project has been significantly de-risked and we have subsequently upgraded our recommendation for **Strike Oil Limited** to a **Buy** from a Speculative Buy.

Investment Highlights

- **Rayburn Sales Continue to Increase** – Net sales at Rayburn are now in excess of 9 million cubic feet of gas per day and 200 barrels of condensate per day. This represents revenue of \$4m per month for Strike, including production from Mesquite. Forecast ramp-up from scheduled drilling should see revenues for the 2008/2009 year of over A\$65m.
- **Gilbert Freeman 2 Early Signs Encouraging** – Initial testing results from the Gilbert Freeman 2 well at Rayburn indicate that it should perform consistently with previous wells, delivering up to 10 million cubic feet of gas per day with 250 barrels of condensate per day. The Company has one well awaiting testing and is drilling ahead with another. Back to back drilling is planned for the foreseeable future at Rayburn, possibly for up to 3 years.
- **Reserve Estimate Expected in September** – The Company plans to release a reserve estimate based on wells drilled to date at Rayburn. We estimate that net proved reserves (1P) could be in the range of 9 – 12 billion cubic feet of gas equivalent, with proved plus probable reserves (2P) up to 15 – 20 billion cubic feet of gas equivalent. The net contingent resource potential is 53 – 78 billion cubic feet of gas equivalent. Our modelling of Rayburn estimates that this is worth A\$5.40 per million cubic feet of gas equivalent, indicating upside potential of \$420m for the Company.
- **Hybrid Energy Coal to Liquids Progressing** – Recently, bad press about underground coal gasification (“UCG”) projects in Queensland has seen a sharp decline in the share price of several companies in the sector. Strike’s Futurgas project remains well placed as it is a surface mining operation located in South Australia, and avoids all of the points of issue raised in the media article. We place little credence in the media article itself; however, Strike’s project should not be negatively affected either way.
- **Gas Prices at Seasonal Lows, Expected to Increase** – Historically, northern hemisphere summer months lead to weakness in terms of US gas prices. It is likely that prices will increase from the current lows as the northern hemisphere winter approaches.

Share Price Performance


Source: Iress

Strike Oil Limited		Share Price				August 2008				
STX		\$0.28				Recommendation				
Key Market Information										
Share Price		\$0.28								
Market Capitalisation		\$90m								
52 Week High-Low		\$0.40-\$0.19								
Issued Capital		327.2m								
Issued Capital (fully diluted inc. ITM options)		352.0m								
Options		24.9m@SA0.21								
Hedging										
Yearly Turnover/Volume		\$53.2m/195.1m shares								
Liquidity Measure (Yearly Turnover/Issued Capital)		60%								
Valuation										
Discounted Cashflow @ 10% Real		\$0.82								
Financial Performance										
	Unit	FY2007A	FY2008F	FY2009F	FY2010F					
Net Revenue	A\$m	10.2	12.1	67.3	83.4					
Total Costs/Writeoffs	A\$m	(15.4)	(12.5)	(22.8)	(23.1)					
EBITDA	A\$m	(5.2)	(0.4)	44.5	60.3					
Depreciation/Amort	A\$m	(3.7)	(2.2)	(3.6)	(4.3)					
EBIT	A\$m	(8.9)	(2.6)	40.9	56.0					
Net Interest	A\$m	-	0.2	(0.2)	1.5					
Pre-Tax Profit	A\$m	(8.9)	(2.4)	40.8	57.5					
Tax Expense	A\$m	-	-	(14.4)	(21.0)					
NPAT	A\$m	(8.9)	(2.4)	26.4	36.5					
Abnormal Items	A\$m	-	-	-	-					
Reported Profit	A\$m	(8.9)	(2.4)	26.4	36.5					
Financial Position										
	Unit	FY2007A	FY2008F	FY2009F	FY2010F					
Cash	A\$m	5.9	8.4	29.9	61.1					
Other Current Assets	A\$m	3.6	9.7	18.2	20.1					
Total Current Assets	A\$m	9.5	18.1	48.1	81.1					
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	49.4	95.1	145.1					
Short Term Borrowings	A\$m	-	-	-	-					
Other	A\$m	1.7	7.5	18.1	31.0					
Total Curr. Liabilities	A\$m	1.7	7.5	18.1	31.0					
Long Term Borrowings	A\$m	0.1	7.5	7.5	7.5					
Other	A\$m	0.2	0.3	0.3	0.3					
Total Non-Curr. Liabil.	A\$m	0.3	7.8	7.8	7.8					
Total Liabilities	A\$m	2.1	15.3	25.9	38.7					
Net Assets	A\$m	30.6	34.1	69.3	106.4					
Cashflow										
	Unit	FY2007A	FY2008F	FY2009F	FY2010F					
Operating Cashflow	A\$m	6.2	4.3	46.9	68.4					
Income Tax Paid	A\$m	-	-	(14.4)	(21.0)					
Interest & Other	A\$m	0.3	0.4	(0.2)	1.5					
Operating Activities	A\$m	6.5	4.8	32.4	48.9					
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)					
Drawdown of Borrowings	A\$m	-	7.5	-	-					
Equity	A\$m	13.8	17.9	3.3	0.6					
Financing Activities	A\$m	13.1	17.9	3.3	0.6					
Net Cashflow	A\$m	(2.2)	8.0	16.1	31.2					
Ratio Analysis										
	Unit	FY2007A	FY2008F	FY2009F	FY2010F					
Cashflow Per Share	A¢	2.0	1.4	9.6	14.1					
Cashflow Multiple	X	13.8	19.0	2.9	2.0					
Earnings Per Share	A¢	(2.7)	(0.7)	7.8	10.5					
Price to Earnings Ratio	X	(10.1)	(37.9)	3.5	2.6					
Dividends Per Share	A¢	-	-	-	-					
Dividend Yield	%	-	-	-	-					
Interest Cover	X	-	11.9	228.1	na					
Return on Equity	%	na	na	38%	34%					
Directors										
Mr Peter Lynton Gunzburg					Level 9, 40 The Esplanade					
Mr David Wrench					Perth, Wa, 6000					
Mr Jeffrey Schneider					Tel: (08) 6464 0400					
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	11.50	10.50					
Oil	US\$/bbl	60.66	96.88	107.50	100.00					
Exchange Rate	A\$/US\$	0.79	0.90	0.93	0.89					
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	0.82	-2.4	-0.7	1.4						
Gas Price +-10%	0.85	-2.5	-0.8	1.4						
Gas Price --10%	0.79	-2.3	-0.7	1.5						
Exchange Rate +-10%	0.74	-2.3	-0.7	1.5						
Exchange Rate --10%	0.92	-2.5	-0.8	1.4						
Oil Price +-10%	0.77	-2.4	-0.7	1.4						
Oil Price --10%	0.77	-2.4	-0.7	1.4						
*N.B. NPAT, EPS, CFPS forecasts are for FY2008										
Share Price Valuation (NAV)										
		\$m	\$/share							
Rayburn (NPV @ 10%)		123.6	0.35							
Rivoli (NPV @ 10%)		31.7	0.09							
Mesquite (NPV @ 10%)		7.8	0.02							
Exploration		95.3	0.27							
Hybrid (NPV @ 10%)		35.1	0.10							
Cash		8.4	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		289.38	0.82							
10% real discount rate used for DCF (~13.3% nominal)										
Analyst: David Wall					Last Updated: 08/08/2008					
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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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Hartleys has assisted in the completion of part of a capital raising in the past 12 months for Strike Oil Limited, for which it received fees.

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