



29 January 2009

Strike Oil Limited  
ABN 59 078 012 745

The Company Announcement Officer  
Australian Stock Exchange Ltd  
*via electronic lodgement*

## QUARTERLY ACTIVITIES REPORT PERIOD ENDED 31 DECEMBER 2008

Please find attached Strike Oil Limited's Quarterly Activities Report for the period ended 31 December 2008.

Yours faithfully

A handwritten signature in black ink, appearing to read "Simon Ashton".

SIMON ASHTON  
Managing Director

*Further information:*

**Strike Oil Limited**  
Simon Ashton - Managing Director  
T: 08 6464 0400  
E: [strike@strikeoil.com.au](mailto:strike@strikeoil.com.au)



### Our Strengths

- Producer/Explorer with strong cash flow
- Track record of discoveries
- Geographically diverse portfolio
- Highly experienced team
- Strong experienced partners
- Innovative approach to E&P

**Strike Oil Limited**  
Level 9, Wesfarmers House  
40 The Esplanade  
Perth WA 6000  
Tel: 08 6464 0400  
[www.strikeoil.com.au](http://www.strikeoil.com.au)



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**QUARTERLY ACTIVITIES REPORT  
FOR THE PERIOD ENDED 31 DECEMBER 2008**

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***HIGHLIGHTS FOR THE QUARTER***

**Financial**

- Gas and oil-condensate revenue of AUD 13 million – up 8% on the previous quarter
- Strong cash flows maintained

**Production**

- Gas production of 1,111 mmcf – up 55 % on the previous quarter
- Oil-condensate production of 27,922 barrels – up 60% on the previous quarter

**Growth**

- Significant 12 month growth in production and revenue

***OUTLOOK***

- Focus on high quality Gulf Coast interests
- Strong operating cashflows

## MANAGING DIRECTOR'S REPORT

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The December 2008 quarter capped a successful 12 month period of growth for the Company during which:-

- six Wilcox formation wells were brought into production at sustained gas and oil-condensate rates at the Rayburn discovery, Gulf Coast, Texas;
- gas and oil-condensate production increased during each quarter;
- revenue improved during each quarter achieving consistent monthly cashflows.

### Gulf Coast

The Rayburn project was established as a substantial gas and oil-condensate discovery for the Company. Six wells are now on production from the Wilcox formation with a sustained aggregate rate of over 5,000 barrels of oil equivalent ("boe") per day.

During the last 12 month period substantial increases in production and revenue have been made, as illustrated by the following table:

<b>Quarter Ended</b>	<b>Gas</b>	<b>Oil</b>	<b>Revenue</b>
March 2008	72%	128%	118%
June 2008	88%	129%	165%
September 2008	34%	30%	35%
December 2008	55%	60%	8%

At 31 December 2008, the Company's net daily production of gas and oil- condensate from the Rayburn and Mesquite projects was approximately 9.6 mmcf gas and 215 barrels oil-condensate, or 1,175 boe.

Monthly revenues of AUD 3 to 4 million were achieved during the past six months.

The success of the Mesquite and Rayburn discoveries is evidenced by the rapid payback rates for each project – 20 months from first production for Mesquite and just over 12 months for Rayburn.

### Outlook

The Company indicated at its annual general meeting in November 2008 that it would take steps to focus the energies of its people and financial resources on the high value aspects of its business to secure cashflow for the benefit of shareholders and to strengthen its balance sheet during the current period of low oil and gas prices and global financial uncertainty.

In anticipation of ongoing weaker oil and gas prices and natural declines in existing field production, several initiatives have been taken by the Company during the December quarter, and will be continued in the coming quarters, to conserve cash, consolidate the Company's achievements to date and to reduce as much exposure as possible to high cost activities and long term projects:-

- changes have been made to the board and management structure through the reduction in the number of directors and the abolishment of the position of technical director;
- substantial staff and overhead reductions have been implemented;
- the focus of resources is now directed almost exclusively to the Gulf Coast operations;
- a review and rescheduling of the high cost exploration and appraisal programmes in the Gulf Coast has been actioned (and will be maintained in the future) with our joint venture partners in the USA, in order to preserve cash and to reduce risk;
- the reduction as much as possible of expenditure and commitment to Australian projects that will not generate early cashflow.

In Australia, the Company will be seeking to limit its commitments to current joint venture activities and aim to secure partners for its projects in the Carnarvon and Cooper Basins.

Essential gasification trial work at the FuturGas project, operated in South Australia by the Company's wholly-owned subsidiary, Hybrid Energy Australia Pty Ltd, will be continued in conjunction with the University of Adelaide research team. However, other prefeasibility work will be delayed until a suitable partner for the project is secured.

The Company is confident that with its operating cash flows and the existing cash of AUD 14.5 million at 31 December 2008, it can continue to fund its ongoing reduced capital expenditure and debt commitments. The Company continues to operate within its debt covenants and the current balance of AUD 8.6 million will be repaid over the next 4½ years.

Existing US production generates substantial cash flows even at the current low oil and gas prices of approximately USD 4.00 per mcf of gas and USD 40.00 per barrel of oil (AUD 6.15 and AUD 61.50 respectively at current exchange rates). US production costs of operating costs, royalties and taxes amount to about 30% of revenue leaving a comfortable operating margin of AUD 4.30 per mcf of gas and AUD 43.00 per barrel of oil.

Ongoing positive operating cash flows will be allocated towards meeting its debt commitments, strengthening of the balance sheet and pursuing the most optimum value add activities.

Strike Oil fortunately holds an inventory of quality prospects in the Gulf Coast which are optimised to obtain maximum leverage. Recent disappointing drilling results at the Tumbleweed prospect (the Hart Estate GU 1-1 well) and the Rayburn project (the Duncan Ansley GU 1-1 well) highlight the risks in our business however we are confident that with the opportunities ahead in the Gulf Coast that we will continue to grow. In addition, the Company's focus will be reinforced by exploring new opportunities in the USA with its joint venture partners and other parties.

The above strategies will enable the Company to consolidate its significant achievements to date and to utilise its capable management team and its strong partnership in the USA to preserve and grow the Company in the most effective manner.

**Simon Ashton**  
Managing Director

## SIGNIFICANT PROJECT ACTIVITIES

### PRODUCTION

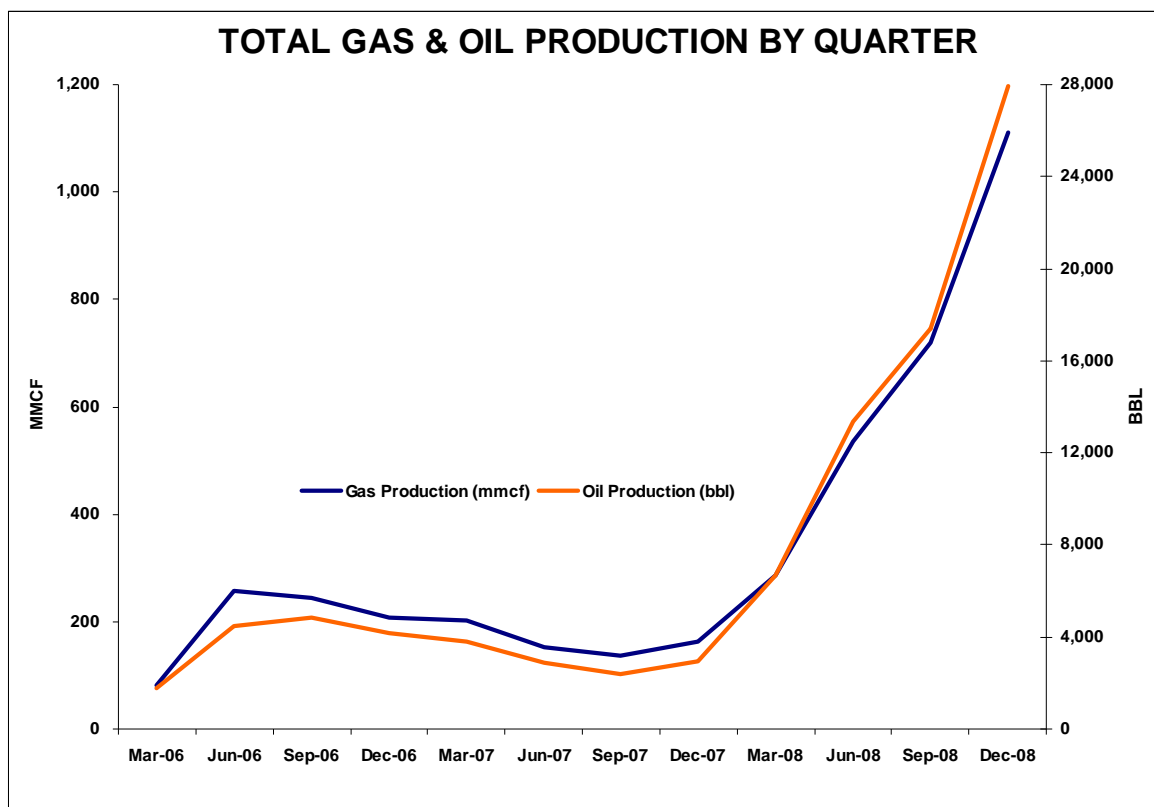
December 2008 quarterly production, with a comparison to the previous quarter, is tabled below.

	Joint Venture		Strike Oil WI		
	Dec 08	Sept 08	Dec 08	Sept 08	Change
Gas (mmcf)	4,376	3,598	1,111	719	+55%
Oil-cond (bbl)	109,799	8,8462	27,922	17,410	+60%

Production from individual wells in the Mesquite project continued their natural decline while most wells in the Rayburn project are still producing at or near initial rates. The only new production brought online during the quarter was from the upper Wilcox formation in the Gilbert Freeman 3 well. The high percentage changes are a reflection of the low base for the previous quarter when some wells had been on production for only part of the quarter.

The gross daily production from the Rayburn and Mesquite projects at 31 December 2008 was approximately 42 million cubic feet of gas per day and 940 barrels of oil-condensate per day, or 5,140 boe. Strike Oil's share was 9.6 million cubic feet of gas and 215 barrels of oil-condensate, or 1,175 boe.

The following graph shows the Company's total quarterly gas and oil-condensate production since the commencement of production operations in the Gulf Coast:



## Gulf Coast Projects, Texas

During the quarter, one Wilcox formation well, Duncan Ansley Gas Unit 1-1, and one shallow gas well were drilled at the Rayburn project.

The primary objective in the Wilcox formation of the Duncan Ansley Gas Unit 1-1 was abandoned after no commercial zones were encountered.

A zone in a shallower secondary objective section which is interpreted to be gas bearing will be flow tested in January 2009 (refer to the *Subsequent to this Quarter* section at the end of this report for an update of the successful flow test).

The shallow Gilbert Freeman 4 well was plugged and abandoned after wireline logs indicated the objective sand was not as well developed as that encountered in the nearby Gilbert Freeman 2 well and was unlikely to flow at commercial rates.

Flow testing of the Gilbert Freeman 3 well continued. A total of three zones in the upper Wilcox formation have been individually tested. Only the results from the shallowest zone have been reported. Removal of the plugs between the intervals to combine the flow from all three intervals is planned for next quarter after which a combined flow rate will be reported. The announced test results are shown in the table below.

Well	Status	Initial Daily Production Rates	
		Gas (mmcf)	Oil (bbls)
Gilbert Freeman 3 <sup>1</sup>	Testing	1,511	80
Duncan Ansley Gas Unit 1-1	Suspended for later testing	-	-
Gilbert Freeman 4	Plugged and abandoned	-	-

<sup>1</sup> Results from uppermost of three zones

Further ongoing development and appraisal work will await a new seismic and drilling results review which is taking place in the current quarter.

## PRODUCTION REVENUE

December 2008 quarterly revenue, with a comparison to the previous quarter, is tabled below.

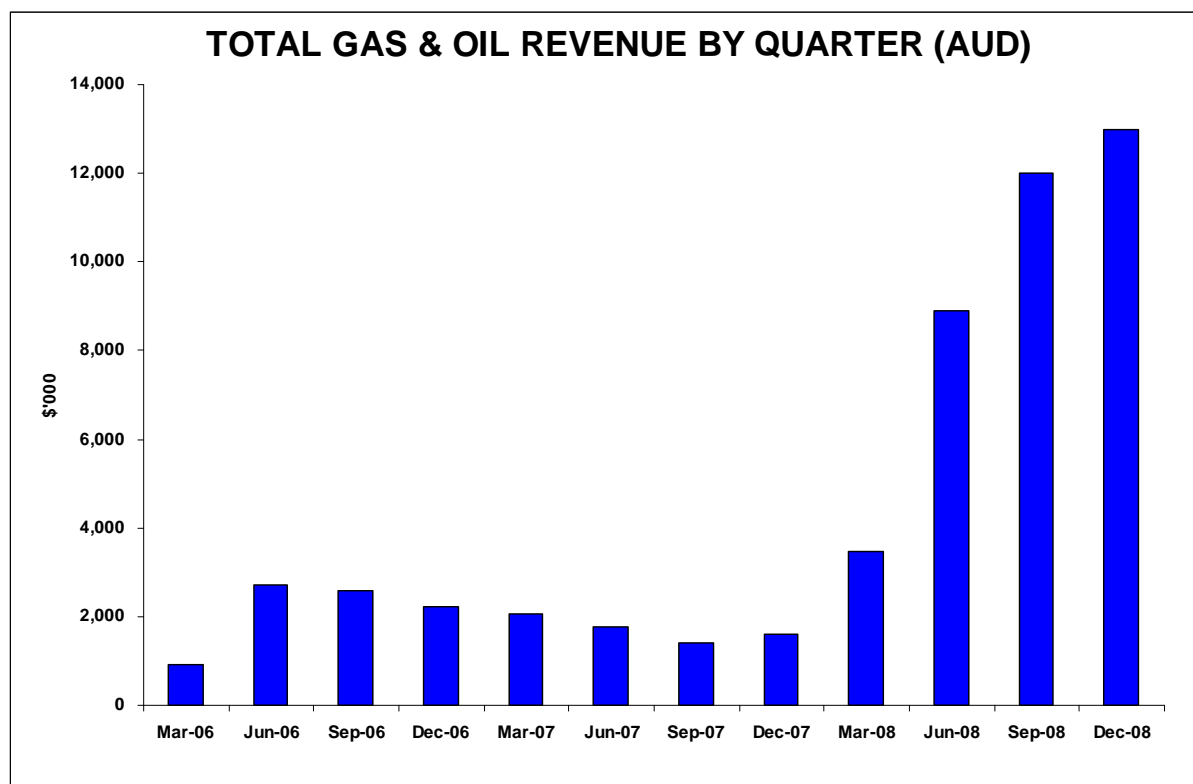
	Joint Venture		Strike Oil WI		
	Dec 08	Sept 08	Dec 08	Sept 08	Change
Gas (\$'000)	46,583	40,419	10,620	9,239	+15%
Oil (\$'000)	10,310	12,147	2,360	2,774	-15%
<b>Total (\$'000)</b>	<b>56,893</b>	<b>52,566</b>	<b>12,980</b>	<b>12,013</b>	<b>+8%</b>

The Company's working interest revenue from gas and oil condensate sales for the quarter was approximately \$13.0 million. This represents an increase of 8% on the previous quarter.

The Mesquite project has already achieved pay back, that is, cumulative revenue from the project has already exceeded the cumulative expenditure, and pay back for the Rayburn project is expected to occur early in the current quarter.

These projects have been highly profitable and while production rates will reduce through natural decline the projects are expected to remain profitable for many years.

The following graph shows the Company's total quarterly gas and oil-condensate revenue since the commencement of production operations in the Gulf Coast:



## RESERVES

A reserve report for the Gulf Coast assets as of 30 June 2008 was released during the quarter. A summary of the reserves announced are tabled below.

Mesquite & Rayburn prospects	Proved	Probable	Proved & Probable	Strike Oil WI
Gas (Bcf)	38.9	33.1	72.0	16.1
Oil-cond (000s bbl)	770	646	1,416	318
<b>Total boe<sup>1</sup> (000s bbl)</b>	<b>4,660</b>	<b>3,956</b>	<b>8,616</b>	<b>1,928</b>

<sup>1</sup> Barrels oil equivalent (boe) is based upon 10:1 value ratio at time of announcement (\$US65.00/bbl oil and \$US6.50/mcf gas).

The negative result following the drilling of the Duncan-Ansley GU 1-1 well will impair the above reserves. Positive offsets of a likely lesser magnitude will occur as a result of the successful test at Gilbert Freeman 3 and some shallow gas production, both at the Rayburn project.

The results of the drilling and testing to date coupled with a new seismic interpretation at Rayburn which is in progress will be used to update reserves in the first half of the 2009 calendar year.

## **EXPLORATION ACTIVITIES**

At the annual general meeting in November 2008 the Company announced that it intended to focus its people and financial resources on its onshore Gulf Coast interests in the USA where exploration success can be rapidly translated into cashflow for the benefit of shareholders.

### **USA**

#### ***Gulf Coast Projects, Texas***

The Hart Estate Gas Unit 1-1 well was spudded in December and was drilling ahead at the end of the quarter (refer to the *Subsequent to this Quarter* section at the end of this report for an update on this well). The well was designed to test a prospective resource of 40 Bcf in the middle Wilcox formation, the producing formation in the adjacent Mesquite field.

<b>Well</b>	<b>Prospective Resource</b>	<b>Status/Result</b>
Hart Estate Gas Unit 1-1	40 Bcf	Drilling at end of quarter

In December the Company announced that a review of its Gulf Coast operations had resulted in a decision to defer or reduce some high cost exploration and appraisal activities in light of the lower commodity price environment. A short pause in the exploration drilling programme will occur after the Hart Estate Gas Unit 1-1 well. Drilling is scheduled to recommence in April 2009.

### **AUSTRALIA**

#### ***Carnarvon Basin***

During the quarter the Company conducted a review of its permits in light of its resources being focussed on exploration in the Gulf Coast. As a result, alternative funding will be sought for priority projects in the Carnarvon Basin such as the drilling of the Baniyas prospect while a number of permits in which there are no commercial prospects at lower oil prices, will be surrendered.

No decision on the Rivoli gas project is expected until the second half of 2009 following the release of the Department of Defence's white paper on defence planning and expenditure.

### ***Cooper-Eromanga Basin***

No drilling or seismic activities were conducted during the quarter. Discussions with State regulators are currently in progress with respect to amending drilling and seismic commitments in 2009.

Progress continued to be made towards the granting of a permit over the PELA 96 in the southern Cooper Basin, in South Australia.

### **BUSINESS DEVELOPMENT**

#### ***Hybrid Energy Australia Pty Ltd – FuturGas Project***

Hybrid Energy Australia's coal-to-liquids FuturGas project, located in the south east of South Australia, achieved several significant outcomes during the last quarter of 2008:-

- comprehensive prefeasibility planning was completed in readiness for the next development phase;
- preliminary modelling has demonstrated that it is both technically feasible and cost effective to manage the water table during mining by pumping and reinjection with the intent of minimising the impact of mining on regional groundwater systems;
- the test work to date has determined that the Kingston coal is particularly suited to the proposed gasification process and further testing is due to be completed by June 2009 to assess the coal's specific gasification properties;
- a FuturGas community consultation group was established incorporating local representatives.

The Company continued to rigorously source an investment partner in order to progress the prefeasibility process, canvassing a range of potential partners including financial, technological and end user options.

In response to the difficult market conditions, the Company has implemented a plan designed to advance the FuturGas project with a reduced cost base until an investment partner is secured to commence the prefeasibility study. This strategy will defer the commencement of the prefeasibility study and reduce staff numbers. However sufficient resources will be retained to manage the ongoing business operations, including stakeholder communications, groundwater management issues, the revised project focus, the search for an investment partner, and related review processes.

The immediate focus of the FuturGas project will be on progressing the coal gasification trials being undertaken by the University of Adelaide's School of Chemical Engineering in their South Australia Coal research laboratory at Thebarton. The gasification trials are designed to establish by June 2009 that the Kingston coal can be successfully gasified and in addition confirm its gas composition.

Ongoing FuturGas project activities and funding requirements will continue to be monitored at regular intervals.

## **HEALTH SAFETY AND ENVIRONMENT**

The Company did not record any safety or environmental incidents during the quarter.

## **CORPORATE**

Although production volumes increased significantly on the previous quarter, this did not translate to revenue, as commodity prices fell heavily during the latter part of the quarter. The cash impact of these price declines will materialise in the third and final quarters.

The Company finished the quarter with cash of AUD 14.5 million, underpinned by solid operating cashflows of AUD 9.4 million for the quarter.

Following scheduled principal repayments during the quarter, the balance of the Company's US dollar debt facility at 31 December 2008 was AUD 8.6 million. The Company continues to operate within its debt covenants and the facility balance will be repaid over the next 4½ years.

Directors Mr Jim Durrant and Mr Peter Gunzburg both resigned from the Company's board on 18 December 2008.

## **SUBSEQUENT TO THIS QUARTER**

### ***Hart Estate Gas Unit 1-1***

The Hart Estate Gas Unit 1-1 well reached its total depth in mid January. Despite good gas shows while drilling, wireline log interpretation and sidewall cores analyses indicated the several potential pay zones in the objective Wilcox formation have low permeability and are unlikely to flow gas at commercial rates at this location.

The well has been temporarily abandoned while the results are evaluated in more detail over the next couple of months. The rig has been released as no more exploration or development drilling is scheduled until April at the earliest.

### ***Duncan Ansley Gas Unit 1-1***

Flow testing of a zone in the Cook Mountain formation, a secondary objective above the Wilcox formation in the Duncan Ansley Gas Unit 1-1 well, began on 15 January 2009. After an initial cleanup flow, gas sales commenced the following day at a rate of 0.5 mmcf/d.

## **NEXT QUARTER ACTIVITIES**

- Complete flow testing of the Gilbert Freeman 3 well on the Rayburn project;
- Complete flow testing the Duncan Ansley Gas Unit 1-1 well in the Cook Mountain formation;
- Progress the grant of PELA 96 in the Cooper Basin, South Australia;
- Progress alternative funding for activities in the Carnarvon Basin and Cooper Eromanga Basin;
- Commence the gasification trials for the FuturGas project and continue the funding process for Hybrid Energy Australia Pty Ltd.

## CORPORATE INFORMATION

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### **Directors:**

Chairman:	J W Schneider
Managing Director:	S M Ashton
Non-executive Director:	D C Wrench
Non-executive Director:	T M Clifton
Company Secretary:	A J Brazier

### **Issued Capital:**

Shares on issue:	328,558,430
Unlisted options:	22,130,000

### **Top 10 Shareholders (as at 21 January 2009):**

<b>Name</b>	<b>Shares</b>	<b>%</b>
Plato Prospecting Pty Ltd	22,024,998	6.70
National Nominees Limited	21,137,661	6.43
Calm Holdings Pty Ltd	19,997,243	6.09
ANZ Nominees Limited	13,623,547	4.15
Mr James Michael Durrant	9,441,754	2.87
S & Y Ashton Nominees Pty Ltd	8,533,964	2.60
Sassey Pty Ltd	6,654,895	2.03
D B Angliss Pty Ltd	6,570,063	2.00
J P Morgan Nominees Australia Limited	4,977,962	1.52
Mr Thomas Fritz Ensmann	3,259,173	0.99

*For further information contact:*

Simon Ashton – Managing Director  
**STRIKE OIL LIMITED**

#### **Registered Office:**

Level 9, Wesfarmers House  
40 The Esplanade  
Perth, Western Australia, 6000  
Telephone: (+61) 8 6464 0400  
Facsimile: (+61) 8 6464 0401  
Email: [strike@strikeoil.com.au](mailto:strike@strikeoil.com.au)  
Website: [www.strikeoil.com.au](http://www.strikeoil.com.au)

#### **Share Register Enquiries:**

Computershare Investor Services  
Level 2, 45 St George's Terrace  
Perth, Western Australia, 6000  
Telephone: (+61) 8 9323 2000  
Facsimile: (+61) 8 9323 2033

**ASX Code:** STX