

November 2020

Oil & Gas Team

Stuart Baker, Oil & Gas Manager

www.breakawayresearch.com

Company Information

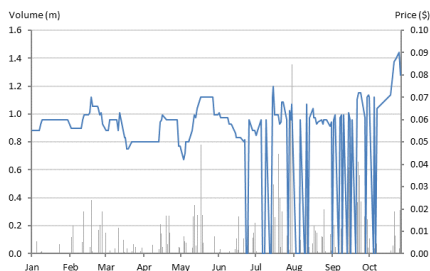
ASX Code	RLE
Share Price (EOT 28/10/20)	\$0.026
Ord Shares	425.7
Options RLEOB	55.9
Market Cap (fully diluted)	A\$11.1M
Cash (Est,30/10/20)	A\$2.8m
Debt	A\$0.0m
Enterprise Value	A\$8.3M

ASX Code	SXA
Share Price (EOT 28/10/20)	\$0.08
Ord Shares	124
Market Cap (fully diluted)	A\$9.8M
Cash (Est, 30/10/2020)	A\$1.4m
Debt	A\$0.0m
Enterprise Value	A\$8.4M

Directors: Refer to page 17

Company Details: Refer to page 20

Price Charts to Oct. 2020 (RLE top)



Source: ASX

Real Energy (RLE) Strata-X Energy (SXA)

RLE & SXA to merge creating Pure Energy Corporation.

Key Points

- **RLE and SXA have agreed to a nil-premium merger, to create a larger and more diversified gas-focused entity, Pure Energy Corporation. Execution of the merger requires various shareholder and Court approvals. The purpose of this report is to profile the assets of Pure Energy, consider the rationale, and outline the opportunities and risks, on the assumption that the merger is successfully executed.**
- **Compelling rationale for merger of equals:**
 - **Diversifies the asset base, with Pure exposed to 3 core gas assets and a hydrogen initiative.**
 - **Eliminates overlap and consolidates the Venus CSG project.**
 - **Pooled financial resources total ~\$10M in cash and carried expenditure to fund current field activities.**
 - **Combined management teams with complimentary skills and a track record of developing and selling companies.**
- **Strategically focused on gas commercialisation.**
 - **Portfolio of discovered resources, with plans to test and appraise leading to reserves and gas commercialization.**
 - **Prospective gas resource of 11.8 Tcf and 770 Bcf (3C) offers huge upside in the event of commercial success.**
 - **Assets are in gas markets which require new supply at attractive prices, in Eastern Australia and Botswana.**
 - **RLE has established a Hydrogen subsidiary to capitalize on the emerging hydrogen theme in a de-carbonizing world.**
- **Post merger, Pure Energy's expanded asset base and scale of potential resources justifies a market re-rating and a valuation at least in line with larger peers.**
- **The merger has been recommended by the Boards of both companies but requires court and shareholder approvals. There is a risk the merger is not approved.**

This is a sensible consolidation of managerial and financial resources to deliver a greatly expanded gas resource of 11.8 Tcf (Prospective) and a strategy focused on gas commercialization. Unlocking value requires applying the right development technologies to discovered resources. The combined management teams have a strong track record of doing so in previous companies, ultimately creating ~\$5B of value through subsequent M&A. Our rating is withheld until the merger is implemented.



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The merger is a logical move in response to an uncertain world.

The management teams of RLE and SXA have independently grown successful eastern Australia gas companies, which were ultimately traded to major and international energy companies in asset deals for a combined ~A\$5B. Replicating such success requires “normal” equity markets and generally, investor appetite for risk in exploration phase enterprises. No matter how transitory the effects of Covid19 and low energy prices, the current reality for both companies, with markets caps of <\$10M, is that the capital needed to unlock value from their respective huge gas resource is unlikely to be available until the world returns to normal. The proposed merger is a pro-active step by both companies to move forward and not be hostage to current events.

Real Energy and Strata-X propose a nil premium merger by way of scheme-of-arrangement to create a new listed entity, Pure Energy. The merger is subject to the customary shareholder, court and regulatory approvals. Boards of both companies have recommended shareholders to vote in favour of the proposal. In addition, Directors advise they intend to vote in favour in respect of all the shares they own or control. Key dates and details of the merger process can be found in the ASX disclosures and Scheme Booklets which are to follow. However, there is risk the merger fails to gain the necessary approvals. This report is a proforma profiling the asset base of the merged entity without presuming the outcome of the approvals process.

The rationale for the merger is logical. The companies have broadly similar strategies and are focused on commercialisation of unconventional or coal seam gas (CSG), and they share ownership of the Venus CSG project in eastern Queensland. The merger eliminates operational and administrative overlap, expands and diversifies the asset base, pools scarce capital resources and combines management teams with complimentary skills.

The combined asset base is profiled in this report. Key features are the degree of overlap in specific assets such as Project Venus, and complimentary strategies of gas commercialization in under-supplied markets. There are synergies to be captured from the experience both companies gained over decades of activity in eastern Queensland and South Australia, in unconventional gas geologies.

Mechanics of the merger and timeline.

The merger proposal is for

- Strata-X to offer 1 of its shares for 3 Real Energy shares.
- The merged entity to be re-named Pure Energy, to trade on the ASX.
- Strata-X to de-list for the Canadian TSX-V market.
- The Issued capital in Pure Energy post merger is expected to be approximately 269M shares.
- This is a “nil-premium” merger. RLE shares have traded around ~2cps in recent months and SXA ~6c and both relatively illiquid. The RLE Scheme Booklet, to be posted to shareholders in November will contain an Independent Expert report regarding the fairness and reasonableness of the merger.

The merger is subject to (1) approval by shareholders of RLE. RLE propose a scheme meeting in December. Directors of RLE recommend the merger and intend to vote their collective 18% in favour, and (2) Court approvals which are anticipated in December.

If approved by shareholders and the Courts, the scheme would be implemented in December, with RLE de-listed and Pure Energy shares under the ticker PUC to commence trading in January 2021.

Strata-X shareholder approval is required for the change of name, from Strata-X to “Pure Energy Corporation”. SXA directors recommend approval and intend to vote their combined 16% shareholding in favour. Post the merger, SXA will delist from the Toronto TSX-V.

Combining the assets

Figure 1 lists RLE’s and SXA’s main assets by way of resource base, and cash, and the assets of the merged entity.

Real Energy (RLE)	Prospective Resource (PJ)			Contingent Resource (Bcf)			A\$M
	Low	Best Est.	High	1C	2C	3C	
50% of project Venus	278	347	417				
100% of Windorah Gas Project		8800		118	330	770	
Other acreage-Cooper BasinATP1194							
Net Cash (Est @ 30/10/20)							2.8
Strata-X (SXA)							
50% of project Venus	278	347	417				
100% Serowe CSG Botswana-core area		2380			23		
100% Serowe CSG Botswana-outside core		3700					
USA-Oil					1.2 MMbbbls		
Net Cash (Est @ 30/10/20)							1.4
Pure Energy-proforma							
100% Project Venus	555	694	833				
100% Windorah Trough				118	330	770	
100% Serowe CSG Botswana-core area		2380			23		
100% Serowe CSG Botswana-outside core		3700					
Net Cash							4.2

Figure 1. RLE, SXA and Pure Energy asset bases. Source: Strata-X and Real Energy ASX reports.

Upcoming work program in parallel with the merger process

From a perspective of value creation, the upcoming 6 months is very important with activity in the field in parallel with the merger process which will provide timely new information.

- Operations are underway at “Project Venus” coal seam gas well, in eastern Queensland block ATP2051 (RLE 50%, SXA 50%). The block had 4 wells drilled previously, up until 2008 by QGC, (Connor#1-4) and these confirmed a gas resource in the prospective “Walloons” coals but the wells were never tested. The new well, Venus#1 will be drilled with the latest technology, nearby to Connor #2 which had 30m of gas saturated coals. The well will be completed as a production pilot, with dewatering planned over an extended period, continuing into early 2021. Gas production would lead to reserve bookings, and the next stage would be an expanded, 3-well pilot to inform commercial development. The JV advises that if commercial gas rates are achieved, then an “aggressive” appraisal program could follow in 2021. **On November 6, RLE reported the well had reached a total depth of 715m, and recorded strong gas shows over the upper 3 to 5m thick coals, and fair to good shows in the deeper coals. Operations continue, with reservoir enhancement next.**



- In Botswana, at the Serowe CSG project (SXA 100%) farm-in partner Botsgas plan a US\$4.6M (A\$7M) multi-well appraisal program with the objective of establishing reserves and ultimately securing a contract to supply a nearby diesel-fired power plant. This is a tiered farm-in which could see up to 19 wells drilled and tested and if the planned activity is fully executed, then SXA's equity in the project will reduce to 51%. A Covid19 "state of emergency" exists in Botswana until March 2021, and activities have been paused until personnel can be safely mobilised.
- In the Cooper Basin, at the 100% RLE-operated Windorah gas project, plans are being considered to re-enter the existing Tamarama 2 & 3 wells with a coiled tubing unit to continue testing. Both wells flowed gas at good rates initially but the flows could not be sustained. Re-completion and application of new methods may result in higher sustained flow rates.

Pure Energy will have four core assets.

Both RLE and SXA are characterised as small companies, dependent on success at one project at any time, and with activity constrained by finances and human resources. The enlarged asset base now has four potentially high-impact assets These are:

- **Project Venus**, a coal seam gas project in eastern Queensland which was 50/50 RLE/SXA. Pure Energy would own and control 100%. The gross prospective resource base is 694 PJ (best estimate).
- **Serowe CSG** gas project in Botswana, currently 100% owned by SXA but reducing to 51% post farm-out to a private company, Botsgas following a drilling program planned to commence as soon as possible post Covid19. The gross prospective gas resource is 2380 PJ (best estimate) in a small portion of the acreage, which is considered to be a high-grade area, with an additional 3700 PJ outside the core area.
- **Windorah gas project** in the Cooper Basin, currently owned 100% by RLE. Gas resources are assessed at 330 Bcf (2C) in a "basin-centred" gas play, defined by 4 wells drilled and tested from 2015-2019. The best estimate of prospective resource for the whole block is assessed at 8800 PJ.
- **Hydrogen Initiative.** Pure Energy is considering the feasibility of using CSG waste water and uncommitted methane resources in the Surat Basin to produce hydrogen. Hydrogen is rapidly gaining favour in the E&P industry as it's a potential source of zero emission energy in a world rapidly moving to "de-carbonisation".

The human factor

Key to a successful merger is a constructive relationship between the respective Boards and management teams and minimisation of staff attrition. In this case, there are complimentary skill sets which when brought together will give Pure Energy a greater capability on commercial and technical fronts.

In particular, Strata-X CEO & Executive Chairman Ron Prefontaine will become Chairman of the merged entity. As a geophysicist with extensive experience in eastern Queensland coal seam gas, Mr Prefontaine will strengthen the technical team and free up Real Energy Managing Director Scott Brown and his team to focus on critical commercial and financial activities.



Four core gas assets: each of which is significant

#1. “Project Venus”. RLE 50%, SXA 50%

Project Venus is currently jointly owned 50/50 by RLE and SXA, so in the first instance the merger will eliminate overlap and duplication of effort. Venus is a 153Km² exploration permit which was awarded in October 2019, following a Queensland Government gazettal. The permit ATP2015 is located is shown in Figure 2, near Miles, and the prolific QGC and APLNG central Surat basin CSG fields supplying the LNG market which have been under intense development since 2010. Other nearby projects which have had recent success are Central Petroleum’s “Project Range” and Senex Energy’s “Project Atlas”. Within a 50 km radius, there is >1200PJ of 2P gas resources, over 2000 PJ of 2C resources, 8 gas processing plants and associated gas gathering and pipeline infrastructure.

Prospective recoverable gas resource estimates within ATP2051 have been independently assessed by MHA Petroleum Consultants and are shown in figure 3. The “Best estimate” of recoverable gas resource is 658 Bcf (694 PJ), on 100% basis. Planned testing and pilot production will inform how much of this can be commercialised and booked to reserves.

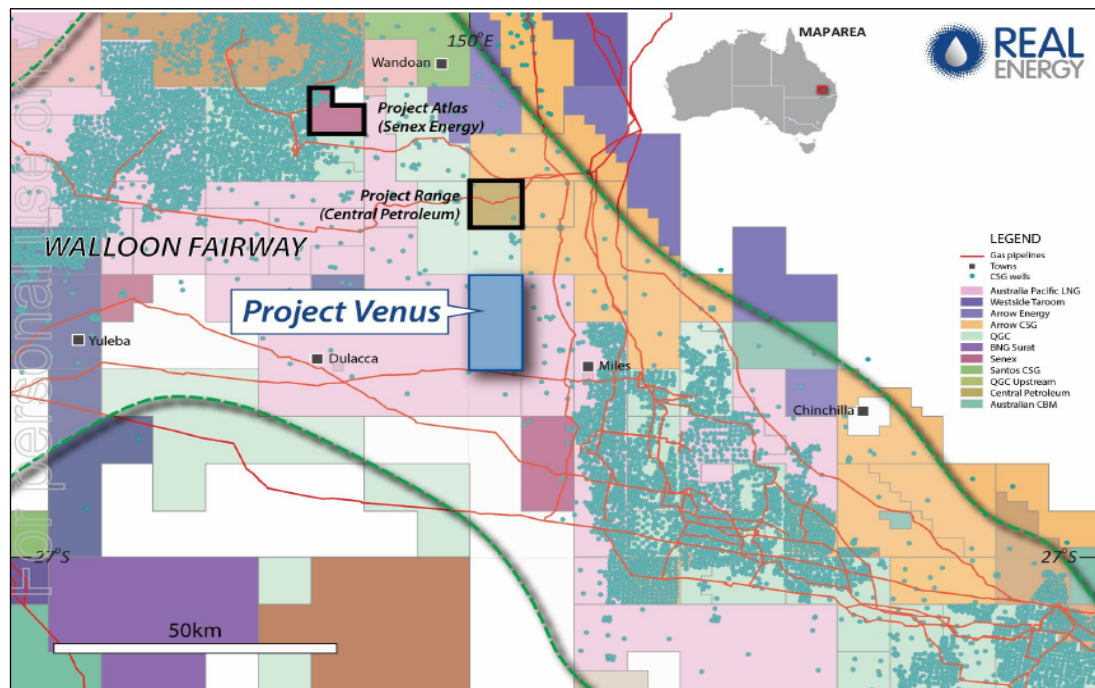


Figure 2. Location of “Project Venus” acreage in the Surat Basin, Qld. Source: Real Energy Website (www.realenergy.com.au)

Prospective Resource volume (Recoverable, 100% basis)	Low	Best	High
PJ	555	694	833

Figure 3. Source: Real Energy

Geology

Four CSG wells have been previously drilled in the permit by QGC commencing in 2008. The first, Connor#1, reached a total depth of 850m. The well intersected 31m of net coal pay comprising 18.7m in the Juandah coal, 10.2m in the Taroom coal and 2.3m in the Tangalooma sand. QGC reported at the time that the well would be completed for drill-stem testing but this never occurred, and in the wake of the BG take-over of QGC, the block was seen as non-core and remote from BG’s focus area to the south-east. In total, four wells (Connor#1-4) were drilled and identified gas-saturated coal sequences at depths ranging from 350m in the northeast to 700m in the south west. Seam thickness ranges from 34m in the north, to 22m in the south.

Gas contents are assessed to range from ~7 Bcf/km² in the north of the permit, to ~5 Bcf/km² in the south. These are similar to gas contents in other fields exploiting the Walloon coals. Permeabilities are very low, in the 0-10mD range and this will pose a development challenge.

Production will require natural cleating, careful management of well design and pressure draw-down to keep the cleats open and the wells flowing, and drilling techniques to minimise formation damage at the wellbore.

Immediate work program and capital costs

Venus#1 is currently being drilled and evaluated. It is located 2km from Connor#2, which had 30m of net CSG pay. Venus#1 reached a planned total depth of 715 on November 6, and reported strong gas shows in the uppermost 3-5m thick coals, and fair to good shows in the deeper coals. The next phase is to stimulate the reservoir, followed by de-watering and production testing, which is expected to continue into early 2021. If gas flows can be sustained, reserves bookings would follow.

Planning is already underway for a subsequent 3 well pilot program in 2021. Commercial flow rates, if achieved could lead to an “aggressive” appraisal campaign in 2021.

Threshold production rates for commerciality are to be determined. In general, flow rates per well from the most recent projects are lower than those recorded over 10 years ago from the sweat spots, however gas prices are now (in general) 2-4x higher, and drilling and completion costs are sharply lower than was the case 10-15 years ago.

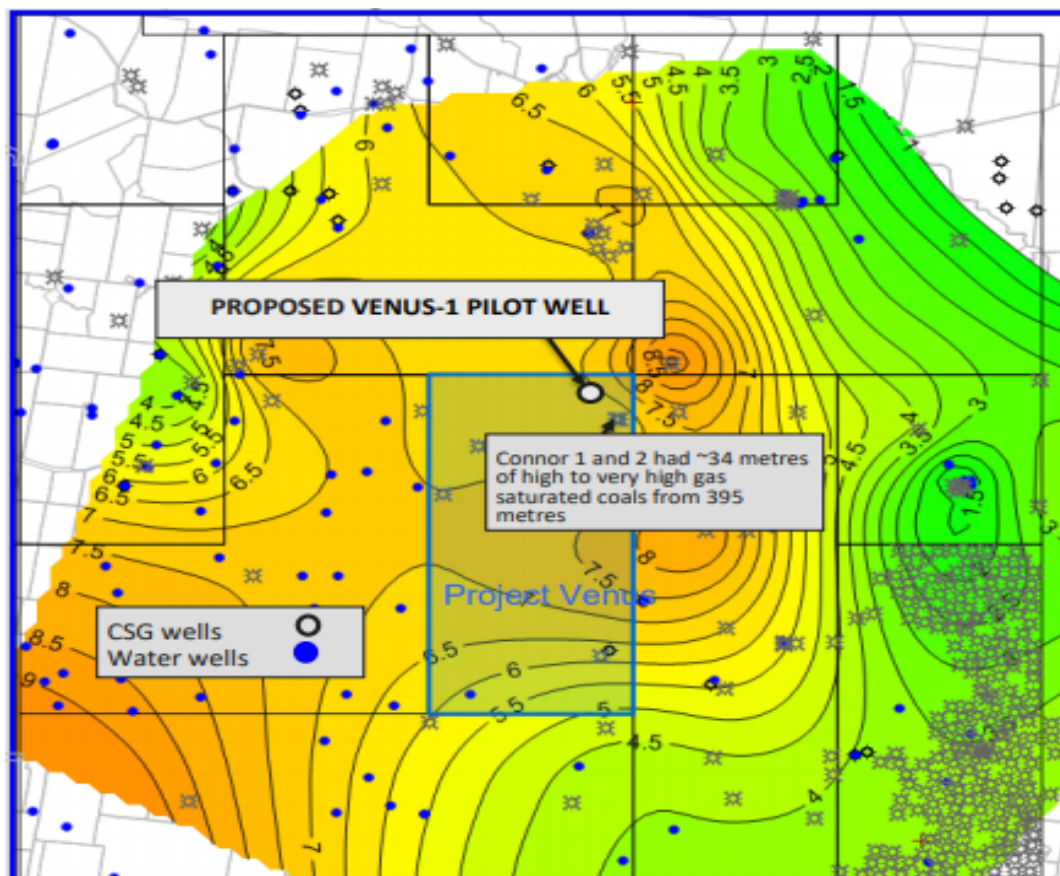


Figure 4. Location of “Project Venus” acreage in the Surat Basin, Qld. Source: Real Energy Investor presentation 15/9 / 2020

#2: Cooper Basin: Windorah Trough project (RLE: 100%)

The Windorah Trough gas project acreage ATP927 is located in western Queensland and forms part of the regionally extensive Cooper Basin. The acreage is surrounded by gas fields and process infrastructure owned and operated by Santos and others. The location is shown in Figure 5.

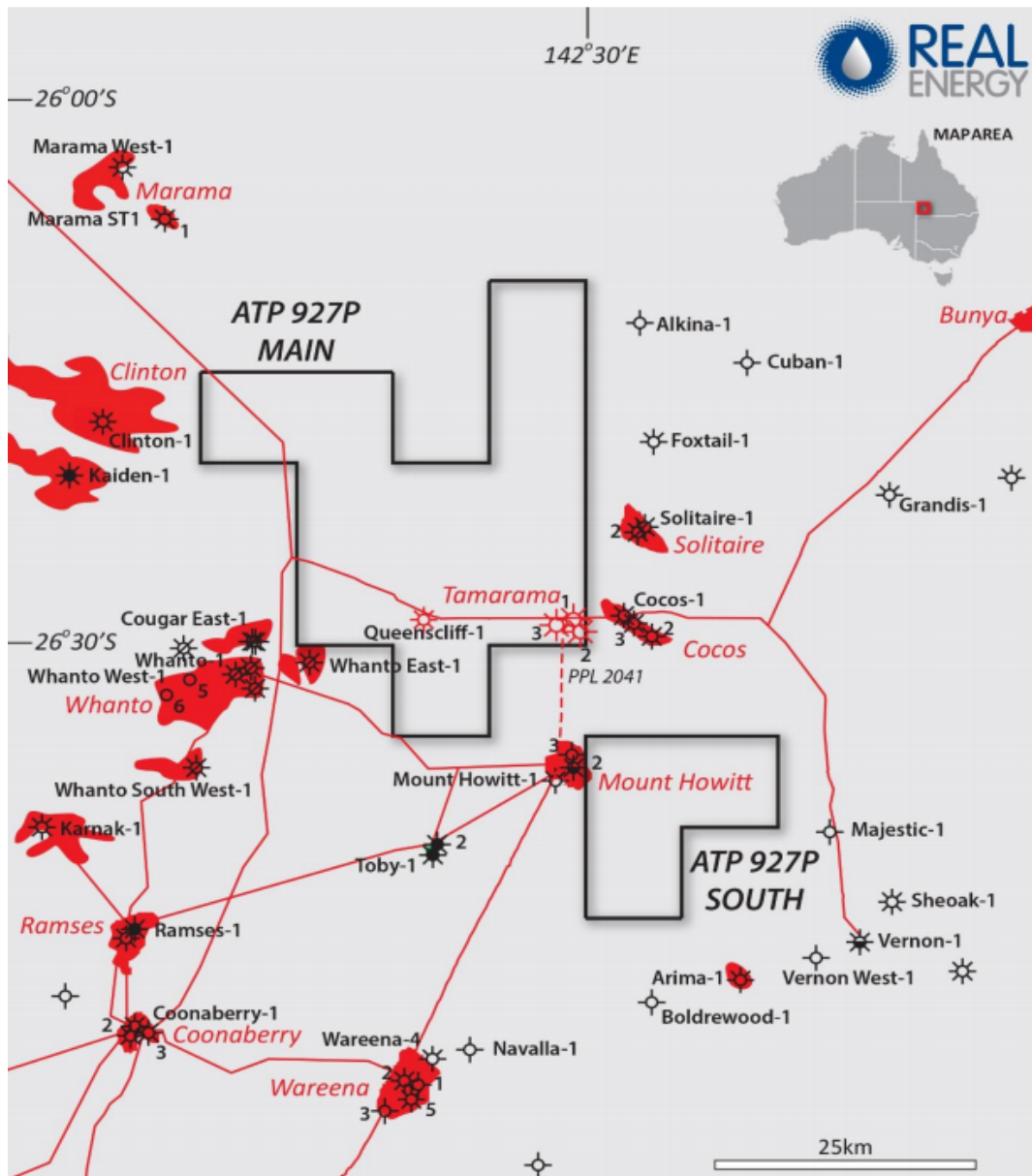


Figure 5. Location of Windorah Trough project. Source: Real Energy Investor presentation 15/9/2020.

The acreage has an estimated Best Estimate Prospective gas resource of 8.8 Tcf, with contingent resources to date defined by 4 exploration wells drilled and tested.

Since establishing the Windorah Gas project in 2014, RLE have invested ~\$31M into understanding what is required to commercialise gas, by drilling 4 wells, confirming the geology, flow-rate testing three wells, and putting in place gas processing and land-owner access agreements and being awarded a license to install a short pipeline to connect to the Santos system at Mt. Howitt.

The first two wells were drilled during 2014 and 2015, Queenscliff#1 and Tamarama#1 both of which encountered gas-bearing reservoirs outside of any structural closure and thus validated the “basin-centred gas” (BCG) geological concept. During 2018 and 2019, two more wells were drilled at Tamarama #2 and #3. Flow rates of 2mmcf/d and 2.5MMcf/d respectively, were achieved in February 2019, after stimulation of a number of low permeability sands.



However, these rates could not be sustained. In the second quarter 2019, both wells were re-tested. RLE reported that Tamarama#2 flowed at 0.4-1.3mmcf/d over a 2- week period, through a range of small chokes, and the results from Tamarama#3 were lower. Based on these test results, contingent gas resources have been determined by Aeon Petroleum consultants. Figure 6.

RLE has successfully validated the BCG geological model, established a gas resource with flow potential, and significant geological and commercial de-risking has occurred, but the commercial case is not yet established. For a commercial project, the wells need to flow at stable rates for an extended period. To achieve that, RLE will need to identify and apply drilling and completion techniques optimised for low permeability reservoirs.

Bcf	1C	2C	3C
Tamarama/ Queenscliff	118	330	770

Figure 6. Contingent gas resources. Source: Real Energy, 15/9/2020

Next steps.

Pure Energy is developing a plan to re-enter Tamarama#2 or 3 with a coiled tubing unit and apply different reservoir stimulation techniques. Sustained flow rates are a critical next-step, meanwhile a number of the other aspects of the project, such as gas contracts and processing arrangements are already in place, and are summarised below. On October 15 2018, RLE signed a binding processing agreement with Santos Cooper Basin JV to process the gas. This is “raw” gas ex-field.

- RLE need to construct a flow-line to tie-in to the Santos-operated Mount Howitt gas line, which is located 14 km to the south. Approvals are in place for this pipeline. From there, gas flows to the Santos plant at Ballera for processing to sales quality and compression to enter high pressure pipelines and then on to the east coast.
- In 2017, RLE entered into a MoU with Weston Energy for 15PJ of gas over 5 years, equating to 3PJ p.a. In its most recent market reports, RLE indicates it has issued Expression of Interest to gas customers for the supply of 5PJ of gas over 3 years.

During 2019 RLE began looking for industry partners to bring in technology and capital and in the December 2019 Quarterly Activities report, RLE indicated it was in discussions with two parties regarding funding the project and conducting further work. However, with the sudden collapse in oil and gas prices in early 2020, and associated Covid19 impacts, a transaction could not be concluded.

#3. Serowe CSG gas project, Botswana (SXA 100%, potentially reducing to 51%)

Botswana, and many other countries in southern continental Africa are energy short. Historically, Botswana sourced its power needs from South Africa but with power supply in the latter becoming constrained, Botswana face shortages, and higher prices. It has no indigenous energy sources and has been forced into building power stations fired by imported, expensive diesel.

Botswana however does have significant CSG resource potential, and to the east, gas potential in conventional but very deep reservoirs. A number of E&P companies recognise the Botswana’s CSG prospects and are or were active in Botswana, including ASX-listed Tlou (ASX: TOU), and previously Origin Energy, and South Africa’s SASOL. As with SXA, those other operators mostly gained their CSG expertise in eastern Queensland.

In 2016, Strata-X acquired 4572Km² of acreage in the Kalahari Basin in Botswana, which is believed to be prospective for CSG. The tenements are located on flat land, approx. 60 km from Serowe (Population ~60,000). See figure 7. The acreage is currently in an exploration phase, with the primary exploration term extending to 2025, and in perpetuity in the event of production. Currently, SXA owns 100% but this will reduce to 51% in the event a recently concluded farm-out and work program is executed.



The resource is very large

The acreage potential has been assessed by MHA Petroleum consultants. Key metrics are:

- 6.08 Tcf total prospective Resources (100%).
- 2.38 Tcf of Prospective Resource (100%) within an interpreted high-grade area.
- A 2C contingent resource of 23 Bcf, immediately around exploration well 19B-1 which was drilled by SXA in March 2019. The well was drilled and cored to 474M, and intersected 18m on net coal. Key results reported were (1) gas contents ranged from 2.2-5.8 cubic meters per tonne (2) 100% gas saturation and (3) coal seam permeabilities up to 100mD.

Farm-out to advance appraisal activity

Following the encouraging 19B-1 core hole results, SXA sought a farm-in partner to share risk, provide funds and move to an appraisal phase.

On March 23, 2020 SXA announced it had farmed out the acreage to private company “Botsgas”. Key elements of the deal are:

- A 4-stage farm-out funded 100% by Botsgas, for up to 19 wells drilled and tested.
- If all stages are completed, then Botsgas to earn 49% in the tenements
- The 19 wells to include 7 appraisal wells, and 3 multi-well pilots.
- As a minimum, Botsgas will drill one vertical well, “Botsgas-19-B-2” at an approved budget of up to US\$300,000. A short test is planned to determine water rates and induce gas flow. This stage is designated as Stage 1A. Subsequent stages are Stage-1B (6 appraisal wells), Stage2 (production pilot, 4 wells), stages 3 & 4, each consisting of two 5- well pilots.
- Each stage is to be fully funded by Botsgas, up to an agreed cap after which cost overruns are to be split 51/49 Strata-X/Botsgas. Botsgas will not earn an equity in the tenements unless it completes Stage-1B.
- The investment required to complete all 4 stages and Botsgas to earn-in, is A\$7M.

For more details of the farm-out and sequencing of activity, refer to SXA’s market announcement and Botsgas Letter to Shareholders” posted on their website dated 2/9/2020. The objective of the appraisal program is to establish commercial reserves and for that, the production pilots need to be successful. A key market for the gas is the 90 MW Orapa power station 90km to the north which is currently fired by diesel, and would require a gas pipeline to be built. In the interim, the JV plan to produce “compressed natural gas “(CNG) using Serowe gas, and transport the CNG by road to Orapa, and other local gas markets such as mines.

On 9/1/2020, SXA announced the Serowe project Environmental Impact Assessment had been approved by the Botswana Department of Environmental Affairs. The approval grants SXA the right to drill and test 75 wells in the 2.38 Tcf “High-grade” area.

On July 1 2020, SXA announced it had received AUD\$300,000 from Botsgas to commence the work program, however the timing of the commencement of work is uncertain due to Covid19 travel restrictions and related operational constraints. In September, Botsgas informed its shareholders of a successful capital raising of A\$750,000, with additional raising ongoing.

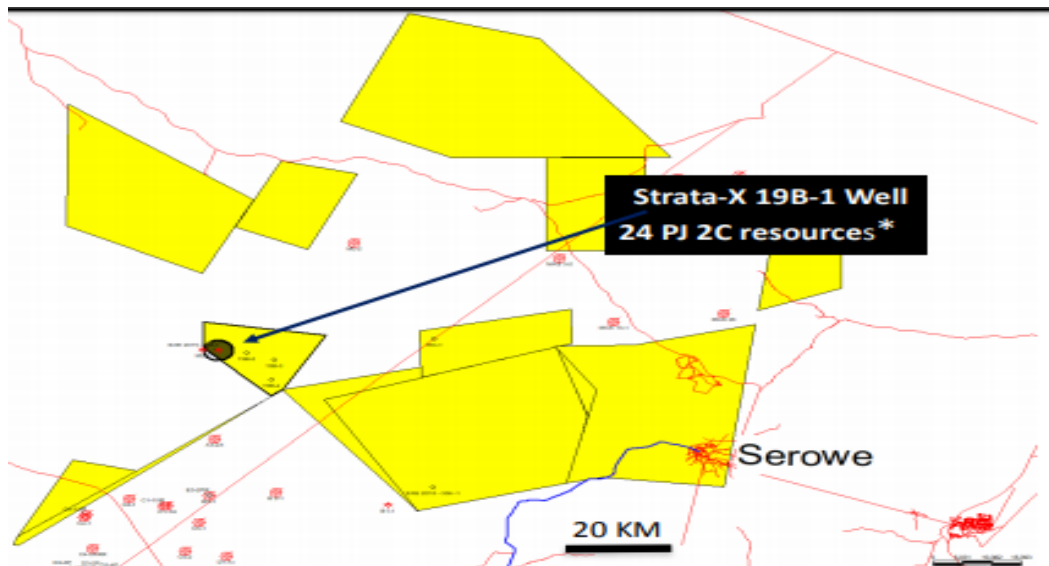


Figure 7: Botswana acreage. Source: Strata-X ASX reports.

#4. Pure Hydrogen: Project Jupiter

On May 20, 2020 RLE announced a strategy to pursue opportunities in hydrogen energy, and established a wholly-owned subsidiary Pure Hydrogen Corporation. Further descriptions on Pure's hydrogen plans are contained in the ASX releases dated September 15, by both RLE and SXA

Hydrogen production and its potential application in fuel cells or power stations, is not new. The basic science has been around since the 1800's, for example electrolysis (1800), and fuel cells (1889). British scientist J.B.S Haldene contended in a paper "Science and the Future" that "(sic) there will be great power stations built where during windy weather the surplus power will be used for the electrolytic decomposition of water into Hydrogen and Oxygen". That paper was published in May, 1923.

Almost 100 years later Haldene's idea may become a common reality and what is driving that is climate change, the global pursuit of de-carbonisation strategies, and Hydrogen's potential as a zero-emission fuel.

Not surprisingly, auto makers and energy production companies are at the forefront of R&D programs focused on large scale, low cost production and distribution. In Australia larger E&P companies such as Woodside, BHP and more recently Santos have unveiled strategic initiatives in the hydrogen space. Federal Government agencies, the Australian Renewable Energy Agency (ARENA) and Clean Energy Finance Corporation (CEFC) are providing significant funding for R&D projects, and October's 2020 Federal Budget allocated further substantial funding.

Hydrogen can be produced in a number of ways, none of which are cheap at this time. In general, there are two main technologies for manufacturing hydrogen.

"Blue Hydrogen". The commonest, and cheapest, is through "Steam methane reforming" (SMR) which reacts water with natural gas and heat, using fossil fuels as the energy source. Hydrogen produced in SMR processes is often referred to as "Blue Hydrogen" due to the use of methane.

The disadvantage of this process from an environmental perspective is the generation of CO₂ from the burning of fossil fuels. If the hydrogen generated from SMR processes is to lower emissions, then the CO₂ would need to be captured and stored. Santos for example, propose to do this at Moomba, by sequestering the CO₂ underground, in depleted gas reservoirs. For a gas resource owner, hydrogen production via SMR is a potential market for gas, which might otherwise be stranded.



An alternative and very common production method is through electrolysis. Basically, large amounts of electricity are passed through water, splitting the H₂O into hydrogen and oxygen. If fossil fuels are used to create the electricity, then it makes no sense to do this if the goal is to lower emissions.

“Green Hydrogen”. However, If the electricity required for the electrolysis is sourced from renewables such as wind or solar, then there are zero CO₂ emissions in the production process, and subsequent consumption of hydrogen in an engine or fuel cell. Hydrogen produced and consumed in this way is often labelled “Green Hydrogen” and from an emissions perspective, is highly desirable. At this time, green hydrogen is expensive to produce for its energy content, compared to traditional fossil fuels, although future carbon taxes, R&D into large scale production, and falling costs for renewable energy are all likely to change the economic equation.

Methane Pyrolysis. RLE’s hydrogen vision is relatively new, and involves “cracking” the methane (CH₄) into its basic components Carbon and Hydrogen. It takes energy to do this, as the methane needs to be heated to 800-1000 Deg. C. If so, 1 cubic meter of methane generates 2 cubic meters of hydrogen and a solid carbon by-product.

Project Jupiter is at an early stage with engineering specialists engaged on a scoping study to build a plant capable of producing 36 million Kg p.a, equivalent to 36M gallons of gasoline, at either Gladstone or Miles on the Surat Basin near project Venus. RLE is exploring a concept to use a methane pyrolysis process which uses the coal seam methane and produced water as inputs. In addition to production of hydrogen there is a valuable carbon solid by-product (graphite) but importantly there are no CO₂ emissions.

The basic chemical process is very simple:



RLE’s rationale for applying methane pyrolysis to its methane produced from CSG is that it offers advantages compared to just selling the gas into the east coast market, including:

- provides a ready market for the methane, that may otherwise be stranded if east coast gas markets were to become over-supplied.
- consumes the water from the CSG wells that would otherwise have to be treated for salt removal and / or re-injected back into the ground, and thus negating water treatment and disposal costs.
- allows for methane production and consumption with zero CO₂ emissions
- generates a valuable, solid carbon by-product. In the least, it’s easier and cheaper to store or dispose of the Carbon solid than capture and sequest CO₂.

The downside, from an economic perspective, is that the process consumes more energy than is available from the hydrogen. Burning a molecule of methane will generate 890 KJ of energy, whereas burning the Hydrogen generates 572 KJ, i.e. 37% less energy. In general terms, the economic equation will be driven by (1) the relative value of Hydrogen and carbon produced, compared to the methane consumed (2) cost of energy required to crack the methane (3) capital costs for pyrolytic plant (4) value (credit) of CO₂ avoided, which will depend on future emission charges and carbon taxes and (5) value of opex and capex avoided by using the CSG water in the process rather than having to treat it and then dispose of it.

Discussions have commenced with potential off takers, and electricity suppliers in the region. The JV envisage a staged development targeting 100 tpd. Concept studies and underway and should be completed by year end. Funding may become available from Governments agencies, or private investors active in this emerging theme. The location of a plant is to be determined, either on state land at Gladstone, or nearer Miles and the CSG permit.



Other Assets: USA

SXA has minor USA oil and gas production assets, from 3 wells which are currently shut-in due to poor production performance and low prices.

Financial position: strengthened in the past quarter

The merger will help both companies reduce costs by eliminating duplication, and co-incident capital raisings by each company in September and October have improved the cash position of both. The Serowe farm-out provides funding to move forward in Botswana, but Pure will need to source additional funds to continue meaningful exploration and appraisal in both the Windorah Trough and Project Venus.

We estimate the merged entity would have net cash reserves of approximately \$4.2M. This is sufficient for the upcoming Project Venus testing, while activity in Botswana is funded by the farm-in partner. However, success at Venus would trigger further appraisal drilled and testing, and additional funds.

Funding options include:

1. Raising additional equity.
2. Farming-out, or selling working interests the 100% Windorah Trough, or Venus, or both.
3. Potential recovery from the ATO of up to \$7M related to R&D claims from drilling and testing in the Windorah trough since 2014.
4. Attraction of funds from Government, venture capitalists or “green energy” sponsors to advance the “Pure Hydrogen” initiative.

RLE’s cash position at September 30, 2020 was A\$2.2M. Subsequently RLE raised \$650,000 from a Share Purchase Plan (SPP). In addition, on September 9, RLE announced the sale of non-core Cooper Basin acreage ATP1194 for US\$225,000, with a non-refundable deposit of US\$25,000 received in the September quarter. Together these funds should boost RLE’s cash to ~A\$3M, before Venus related expenditures.

SXA’s cash position at September 30, 2020 was A\$0.7M and subsequent to that raised A\$0.7M from an equity issue in October 2020. These funds should boost SXA’s funds to ~A\$1.4M before Venus related expenditures.

Elimination of overlapping administration activities and multiple stock exchange listings should result in a reduction in corporate costs, which are currently around \$0.5m p.a. for each company.

The combined entity Pure Energy’s Sept 25 ASX presentation indicates it has \$10M of available funding for the immediate work program. This includes up to A\$7M in free-carried expenditure for CSG in Botswana.



Key risks

Pure Energy is an exploration phase company and there are technological, geological and financial risks. Asset specific risks are documented as follows.

Windorah trough.

The key risk is in understanding the geology and finding solutions to drilling and extraction of gas from low permeability BCG reservoirs. The test results to date show high initial gas flows but rapid decline. More data is required to resolve the reasons why and find engineering solutions and that will require more wells and more testing. Unlike CSG wells in Qld, Windorah Trough wells are relatively deep and expensive. A key risk is of insufficient capital to drill and test enough wells to fully understand the geology and how best to develop it.

Project Venus.

There are operational and geological risks. The operational risks relate to the drilling of a new well. The geological risk is that associated with the reservoir quality. The Walloon coals are geologically well understood across a broad region but quality varies from block to block and the low permeability which is interpreted in this block may render gas production unviable. Water flow and pressure regime in the well need to be carefully controlled to preserve cleating and mitigate fines which could block up the cleats and pores and inhibit production.

Serowe CBM project. It is early days in the appraisal program, and one successful well drilled to date is a very limited data set. Multiple wells need to be drilled and tested before reserves can be booked and the gas commercialised. In addition, SXA's JV partner "Botsgas" is a small private company and it will need to raise additional funds from its shareholders as it progresses through the various phases of the agreed work program. If reserves can be proven, the JV still need to find gas customers in Botswana, in competition with other E&P companies active in the country.

Financial. All of Pure Energy's projects are in the pre-commercial phase and require ongoing funds for appraisal and pre-development activity. Pure will need access to capital in order to deliver its strategy beyond 2020.

Approvals. Creation of Pure Energy requires various regulatory and shareholder approvals. It's not certain that shareholders and the courts will approve. If the merger does not proceed, then each company will have invested money and effort for no gain, and will need to continue independently.

Market implications: would the market re-rate the merged entity

RLE and SXA have low market capitalisations compared to peers and this constrains their ability to source equity funds to advance any of their projects. There are clear benefits in being bigger, and having a larger shareholder base, in addition to broadening the asset base to spread project risk.

The combined prospective resource potential of ~11.8Tcf of gas is larger than many peers in the sub-\$200M market cap. group of junior gas explorers. That alone is a significant point of differentiation and the merged entity Pure Energy appears to be the cheap gas "option". In determining value, it is a starting point for investors looking for leverage to a gas theme.

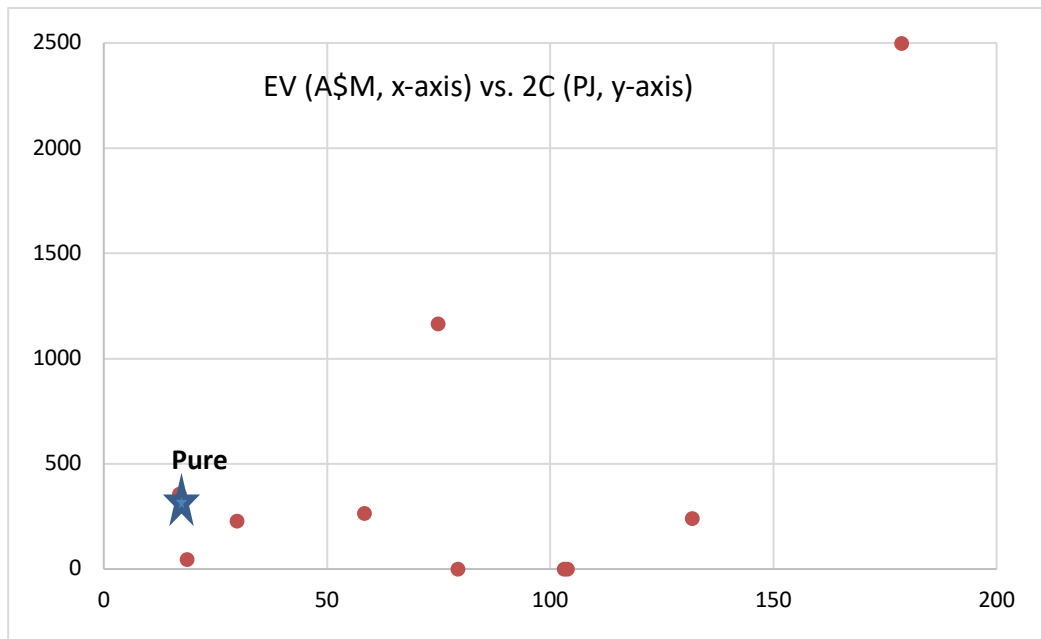


Figure 8: Enterprise values for comparable domestic companies, cross-plotted against 2C resource. Based on financial data as of 26/10/2020.

Peer Group of small explorers

Pure will have a very large prospective resource base (11.8Tcf), but this attracts little value in the equity market, in the order of cents-per-gigajoule. The investment case, and growth in value revolves around what can be converted to 2P reserves and 2C resources, and Pure Energy already has some 2P and 2C which appear to be heavily discounted, when compared to many peers with larger market capitalisations.

Figure 8 shows a cross plot of 2C resource versus enterprise value for ASX listed, gas-focused companies with EV's of A\$200M or less. For Pure Energy, represented by the star at the bottom left, we have simply aggregated the EV's and 2C's for RLE and SXA.

It is also evident from figure 8 that some of the industry peers do not have and 2P or 2C, yet attract meaningful market value. Likewise, some companies do not report prospective resources, which makes comparisons based on this metric incomplete.

Thus, defining a relevant resource metric for comparative valuation is challenging due to very wide range of \$-per-GJ figures, and the lack of a consistent disclosure of resources across the peer group. Some companies report prospective resources in under-explored acreage and such figures can be very large, as is evident from figure 9. Clearly there is a relationship between market value, and resource scale and there are some reasonable analogues, in our view, which are worth documenting.

For example, Elixir (ASX:EXR) reports a 7.6 Tcf prospective resource in its coal seam gas acreage in southern Mongolia, and is analogous to SXA's ~ 6 Tcf of prospective gas resource in Botswana, yet EXR's equity market capitalisation is \$77M, 9x the size of SXA and with no obvious discount for Mongolian country risk.

In Australia, in central Queensland, Galilee Energy's (ASX: GLL) activities in the Galilee Basin and Surat Basin are somewhat similar to Project Venus. GLL's enterprise value is ~\$180M, which is approximately 20x the size of either RLE or SXA. GLL is actively drilling and attempting to commercialise a ~5 Tcf prospective resource, with the "size of the prize" a key attraction. Similar comparisons can be made to Blue Energy (ASX: BLU) and Comet Ridge (ASX: COI), both of which have CSG resources or reserves in eastern Queensland and are ~5x larger than RLE or SXA.

Tlou Energy (ASX: TOU) is active in CSG in Botswana and may serve as a reference for SXA's nearby acreage. While not as large as some peers in Australia, TOU is valued positively for its exploration acreage, that we contend is discounted to nil in the SXA share price.

From figures 8 and 9, it is apparent that both RLE and SXA are outliers, in terms of share market value for size of contingent and prospective resources. Given how small each of RLE and SXA are, and the seeming constant need to raise capital to maintain field activities, it would be reasonable to conclude that secondary market in either of RLE or SXA may not be as attractive to a prospective investor that may simply prefer to wait for liquidity events.

Reserves & Resources (PJe)										
Company / Region	Price	EV	2P	3P	2C	3C	Prosp.	EV/3P	EV/3C	EV/(2P+2C)
Comet Ridge (COI)										
Qld, NSW	0.08	59	106	183	263	2790	2698	0.32	0.02	0.16
Blue Energy (BLU)										
Bowen, Galilee & Waso	0.06	75	71	298	1166	4179		0.25	0.02	0.06
Galilee Energy (GLL)										
Galilee Basin- Qld	0.74	179	0	0	2508	5314			0.03	0.07
Central Petroleum (CTP)										
Amadeus Basin, Qld Surat	0.12	132	161	205	241					0.33
Strike Energy (STX)										
Cooper Basin, Perth Basin	0.26	431			1039	159			2.71	0.41
Real Energy (RLE)										
Qld Cooper basin	0.023	8			330	770	9147		0.01	0.02
Armour Energy (AJQ)										
Kincora field, Surat	0.04	103	170	370				0.28		0.61
Vintage Energy (VEN)										
Galilee, Otway, NT	0.062	19	0	0	46	125			0.15	0.41
Tlou- Botswana										
	0.06	30	43	454	228	3237		0.23	0.01	0.11
Strata-X										
Qld, Botswana	0.08	9	0	0	25	0	2380			0.35
Elixir										
Southern Mongolia	0.12	79	0	0	0	0	7600			
State Gas										
Surat Qld	0.64	104	0	0	0	0	0			
Empire										
NT- McArthur	0.41	98	0	0	0	0	13400			

Figure 9. Australian gas exploration and production companies considered to be peers of Real Energy (Source: Company 3B statements, most recent reserve and resource reports (converted into PJ Gas equivalent at 1.055PJ per Bcf, 6PJ per BOE). Share prices at EOT 24/10/ 2020.



Australian East Coast gas market state-of-play.

East coast gas prices have weakened in 2020, due to (1) Covid19 economic effects in Asia impacting regional demand for LNG, and depressed LNG spot prices (2) reduced domestic gas demand due to Covid19 and (3) diversion to the domestic gas market of LNG otherwise destined for the Asia spot markets. Domestic prices are now ~\$4-5/GJ, however this is a spot price and not reflective of longer-term, take-or-pay gas contracts. Anecdotes are that long term, take-or-pay contracts are still priced at \$8-10/GJ range.

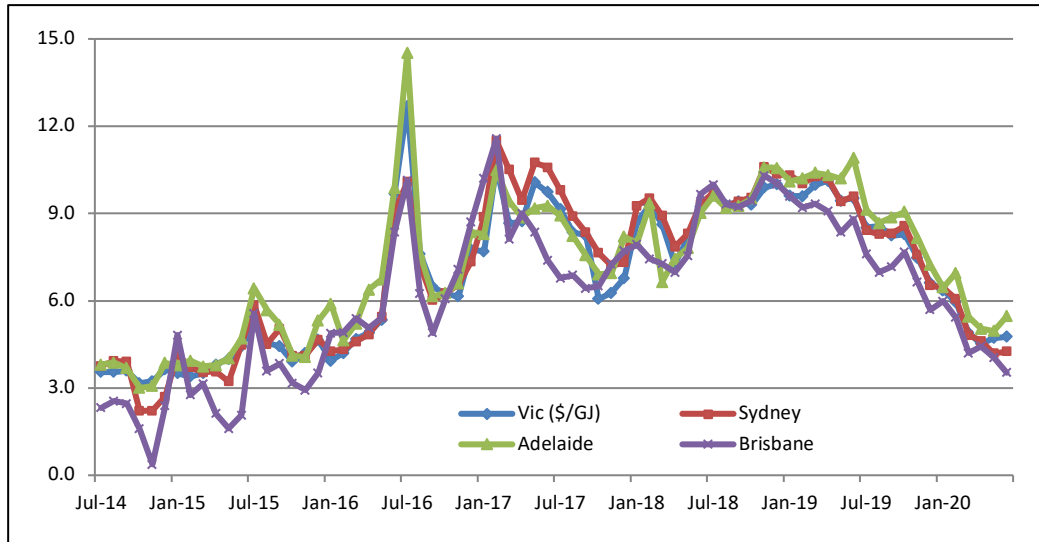


Figure 10. Monthly average gas price, in A\$/GJ, delivered to “City gates” (i.e before entering low pressure distribution networks)

The latest “Gas Statement of Opportunities” from AEMO, released in March 2020 shows a market shortfall from mid-2023, as a base case. However, there are two critical assumptions regarding future supply. The first is that a number of projects move from planning into production, which requires an upfront investment. Given the collapse in oil prices and that most E&P companies are trying to protect balance sheets, funds for development may not be forthcoming. The second is that the Queensland LNG industry continues to divert spot LNG volumes into the domestic market. This is a tenuous assumption as it only makes sense when the Asian spot LNG market is as weak as the current situation. If LNG markets tighten mid-decade as some observers believe, or if oil prices rebound in the short term, then excess local LNG production will be re-directed back to exports.

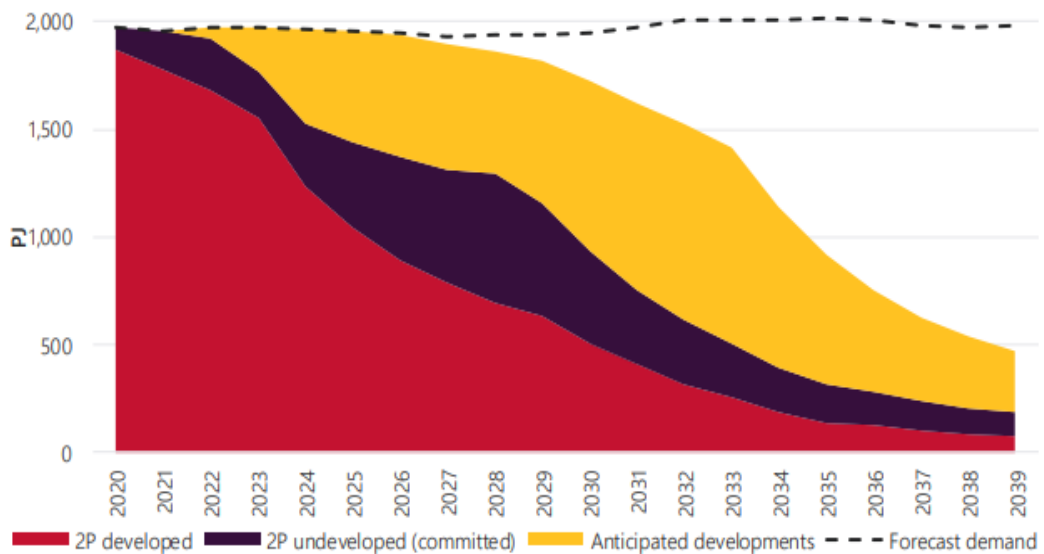


Figure 11: Source AEMO March 2020 Gas Statement of Opportunities

Federal Government Energy Plan

A number of significant energy policies were unveiled by the Prime Minister on September 15 and funding outlined in the 2020 Federal budget. The over-arching strategy recognises the importance of gas as a critical “transition” fuel, and the importance of longer term supply for an “industry lead recovery”. Key parts of the strategy are (1) enabling of major long-distance gas transmission pipelines into remote areas where gas is currently stranded, specifically the Bowen, Galilee and Beetaloo Basins, with the Qld Government already pledging \$5M for a pipeline to the Bowen Basin (2) facilitation of gas trading hubs, at Wallumbilah in Qld (3) Construction of a 1000MW gas-fired base-load power station in central NSW, as the existing Liddell coal-fired power station is phased out from 2023. Reasonably, a more interconnected pipeline system, with storage options, will facilitate gas trading and the transparent pricing that both producers and consumers need to see to make informed development and consumption choices.

Geological backdrop: Basin Centred Gas (BCG)

The “Windorah Trough” is an unconventional gas play and as such, has associated geological and engineering risks which are not well understood as there are no successful examples in Australia.

What is Basin Centred Gas (BCG)?

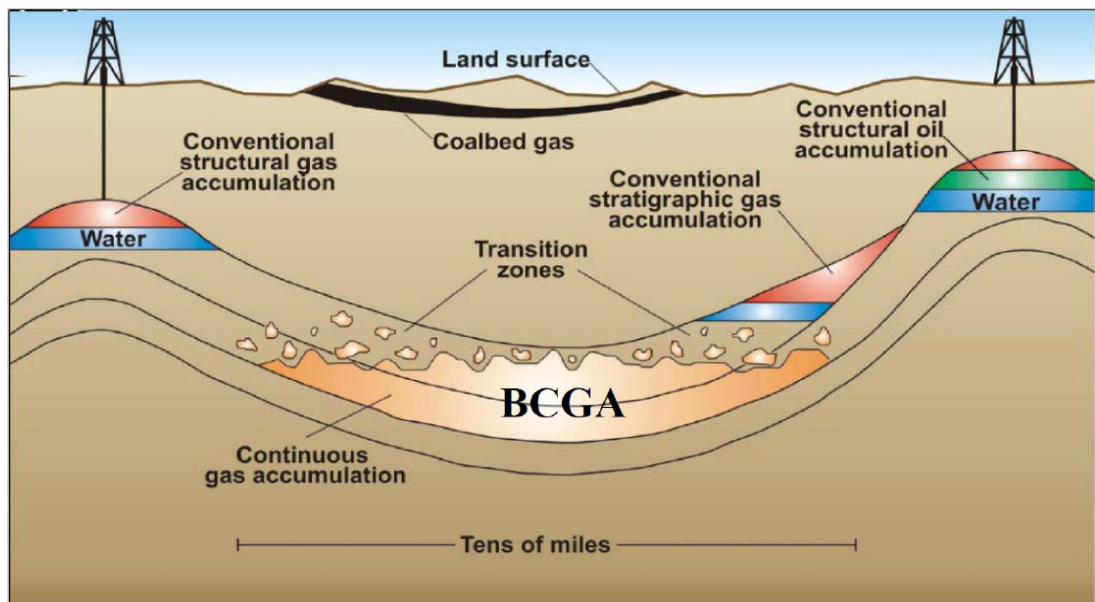



Figure 12. Schematic of basin centred gas (Source: RLE investor presentation)

BCG geology can be laterally extensive and can hold vast resources. Figure 12 shows a schematic. In RLE’s ATP927 permit, independent reservoir engineers Aeon Associates assign a 2C contingent gas resources of 330 Bcf (2C) and 770 Bcf (3C), capturing data from the recent test wells T2 and T3. Independently, DeGolyer & McNaughton assess ATP927 gross prospective resource potential to be 8800PJ (Best estimate).

Basin-centred gas is unconventional in the sense that the gas is trapped stratigraphically in tight sandstones. It requires over-pressure to drive out the gas, and commonly, artificial stimulation is required to enhance permeability and aid commercial flow rates.

Basin centred gas is just another form of unconventional geology that was once considered too hard to exploit commercially, but Increasingly around the world and in particular the USA, production companies are successfully developing and producing from low permeability rocks, such as BCG reservoirs, and shales.



Attempts to migrate this success to Australia in the Cooper basin from 2011-2014 made some pioneering advances but high costs due to remote location, and a collapsing oil price stalled the activity after 2014. More recently in the NT, with the removal of the fracking moratorium, key players Santos and Origin Energy have moved quickly to explore what is believed to be large shale gas oil and gas potential. These are unconventional gas plays in remote region and this highlights the extent to which the industry is having to go to locate new sources of gas.

For RLE, the results to date validate the BCG geological model. There is a very large gas-in-place but achieving commercial rates is an engineering challenge. With 4 wells drilled and tested to date, RLE now has a body of data which may help attract the financial and technical resources that the project requires to move to a commercial phase

Board and Management: Pure Energy

At the time of writing, composition of the Board of the merged entity has not been announced, other than Ron Prefontaine, the incumbent Chairman of SXA becoming Chairman of Pure Energy and Scott Brown, the current CEO& MD of Real energy, becoming Managing Director of Pure. It's likely that the Board of Pure Energy will be comprise a mix of Directors from both the RLE and SXA Boards, thus ensuring a degree of continuity.

Board and Management: Real Energy.

The board and management team previously worked together at Mosaic Oil (MOS:ASX) which was taken over by AGL in 2011, following success in discovering and commercializing oil and gas discoveries in the Surat Basin, Qld. The Mosaic team included Lan Nguyen, Scott Brown & Terry Russell. More recently in its Windorah Trough project, RLE has sourced technical input from USA BCG experts and locally, the University of Qld Chemical Engineering faculty.

Director and Executive Backgrounds

The board and senior management team have been with RLE since its inception, and in 2018 and 2019 was bolstered with the appointment of additional non-executive directors with particular skills in corporate finance and capital markets.

Lan Nguyen, Non-Executive Chairman

Mr Lan Nguyen holds a Bachelor of Science (mining engineer-geologist) degree majoring in petroleum exploration from the Institute of Oil and Chemistry, Baku, Azerbaijan, and a Master of Science degree in petroleum geology from the University of New England, Australia. He is a member of the Petroleum Exploration Society of Australia (PESA), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Engineers (SPE).

Lan is a professional petroleum geologist and engineer with over 25 years of experience in petroleum exploration, development and production in Australia and internationally including 15 years at Mosaic Oil N.L. ('Mosaic'), an ASX listed petroleum exploration and production company, where he played a leading role, initially in technical and middle management positions and in the last 4 years, as Managing Director, in transforming Mosaic from a speculative petroleum explorer to a successful petroleum exploration and production company with growing production revenues, petroleum reserves/resources and profitability. Lan is credited with the discovery and development of many oil and gas fields in the Surat-Bowen Basins through his innovative introduction of various exploration, drilling and completion technologies to Australia.

Lan is currently a principal/director of Tanvinh Resources Pty Ltd and Latradanick Holdings Pty Ltd, which provide services to energy and resources companies in Australia and Asia-Pacific region.



Scott Brown, Managing Director

Mr Scott Brown holds a Bachelor of Business and a Master of Commerce and is a member of the Institute of Chartered Accountants and the Petroleum Exploration Society of Australia (PESA).

Scott is the Chief Executive Officer and co-founder of Real Energy Corporation Limited. Prior to this, he was the Chief Financial Officer of Mosaic Oil NL (ASX: MOS), a listed petroleum production and exploration company with an extensive range of oil and gas production and exploration permits in Queensland, New Zealand and offshore WA. He is also a non-executive director of Shine Metals Limited (ASX: SHI)

During his time with Mosaic, he was involved in the acquisition of production properties and the growth of its business and profitability. He was instrumental in putting together a Scheme of Arrangement with AGL Energy Ltd to acquire Mosaic for consideration of \$142 Million.

Scott has an extensive background in finance and management of public companies including guidance through the listing process. Prior to Mosaic Oil NL, Scott was Finance Director of Objective Corporation Limited ('Objective'), an enterprise content management (ECM) software company that established itself as one of the leaders in the ECM market.

Scott was also formerly the Chief Financial Officer and Company Secretary with a number of public companies including Turnbull & Partners Limited, Allegiance Mining NL, FTR Holdings Limited and Garratt's Limited. Scott also worked at accounting firms, Ernst Young and KPMG

John Wardman, Non-executive Director

Mr Wardman holds a Bachelor of Economics (Macquarie University, Sydney) and is a Fellow of the Australian Institute of Company Directors (FAICD). He is highly regarded and respected in the Australian stockbroking and wealth management sector and has 35 years of experience working in the small resources and energy sectors

He currently is a Senior investment Advisor in the wealth management industry having previously spent 13 years with Macquarie Private Wealth, and prior to that Hartley's Ltd. John is also Chairman of the ASX-listed Shine Metals Ltd. His contacts and network.

Peter Mangano, Non-executive Director

Peter joined the Board in 2019 and brings particular skills in corporate finance, having previously spent 6 years at Colonial First State as a fund manager and Resource Analyst, and previous to that, 12 years at Citigroup where he was Managing Director and Deputy Head of US Equity Research, in New York. Peter has a B.Com (University of Tasmania) and B.Sc (University of Western Australia) and is a Certified Practising Accountant.

Terry Russell, Consulting Exploration Manager

Terry Russell is a geologist with over 26 years of experience working in the oil and gas industry. He has a B.Sc. (Hons) from Victoria University of Wellington, and a PhD from University of New England. Terry was formerly the Exploration Manager of Mosaic Oil NL, with responsibility for the planning and execution of the company's exploration and development program. Prior to this, he was most recently employed as Manager Geoscience for Swift Energy New Zealand Ltd.

As well as having extensive experience in onshore and offshore Australian basins, he has also worked on a range of international projects, principally in New Zealand, the United States, Argentina and Tunisia. He is a member of PESA and AAPG.



James Dingle, Drilling Supervisor

James has practical experience in both field operations and engineering design in a broad range of drilling, completion and production operations across conventional and unconventional (CBM/CSG & tight gas/oil reservoirs). He has extensive experience with coal seam gas drilling, completion & production operations, conventional & underbalanced drilling & completion operations, horizontal/multi-lateral drilling & completion operations and high pressure-high temperature drilling operations in many countries including Australia, Indonesia, UK, Ukraine, Turkmenistan, Russia, and Romania.

Dr Ray Johnson, Reservoir Stimulation consultant

Dr Ray Johnson, Jr., Principal at Unconventional Reservoir Solutions (www.unconreservoirs.com.au), has been involved with design, execution, and evaluation of reservoir stimulation treatments since 1980 and has a PhD in Mining Engineering relating to pre-drainage of fluids (gas and water) for coal mining. Prior to moving to Australia in 1998, Ray had 17 years' experience in engineering and management positions throughout the USA involving fracture stimulation design, execution and evaluation of coals, shales and other naturally fractured reservoirs in areas encompassing most currently producing US unconventional basins. Ray holds an MSc in Petroleum Engineering from the University of Texas at Austin. Ray is an Adjunct Associate Professor at the ASP, University of Adelaide and Professor of Well Engineering & Production Technology at the University of Queensland, School of Chemical Engineering.

Board and Management: Strata-X

The executive Chairman is a Geophysicist by background and has an extensive history of growing successful CSG companies in Eastern Australia, notably CSG specialists, Arrow Energy and Bow Energy. Both were eventually acquired by much larger companies for a combined \$4.5B,

Ron Prefontaine, Executive Chairman

Ron will assume the role of Chairman of the merged entity. Ron graduated from the University of British Columbia in 1979 with a degree in Geophysics, and worked in Calgary before being recruited by Santos in 1981. At Santos, Ron worked on projects in the Cooper, Bowen, Surat and Canning Basins and subsequently had careers with OCA and Pancontinental Petroleum. Recognising the potential of the Surat Basin Walloon acreage, between 1994 and 2001 Ron's private company applied for several million acreage which was subsequently farmed out or acquired by Arrow Energy. In 2001, Ron became Executive Director of Arrow Energy, running the de-risking of the E&A program. (Arrow Energy was acquired by Shell in 2010 for A\$23.5B). In 2005, Ron co-founded Bow Energy, another Queensland CSG specialist. In 2011, Bow was acquired for \$550M. In 2012, Ron co-founded a specialist well service company, Wellpro, based in eastern Qld and providing specialist completion and well equipment to the Qld CSG industry. In 2015, Ron founded Strata-X and is currently deputy chairman.

Duncan Cornish, Non-Executive Director.

Mr Cornish is Company Secretary. Mr Cornish has many years of experience in managerial roles related to capital raisings, stock exchange listings on the ASX, AIM and Toronto, financial reporting, regulatory, compliance, and business acquisition due diligence. He has worked with Ernst & Young and PricewaterhouseCoopers both in Australia and the UK, and serves as CFO of other listed companies on the ASX and Toronto.



Greg Hancock, Non-executive Director

Greg Hancock has a BA (Economics) and B.Ed(Hons) F.Fin. He has extensive experience in corporate finance and capital markets and stockbroking in Australia and the UK. During this time he specialised in mining and natural resources. He was a founding shareholder and first Chairman in Australian listed oil and gas company, Cooper Energy (ASX: COE) and served as a non-executive Director until 2011. Mr Hancock is Non-executive Chairman of Australian mining company AusQuest (AQD) and other directorships are Zeta Petroleum (ZTA), BMG Resources (BMG), Golden State Mining (GSM), Cobra Resources PLC (LSE: COBR) and King Island Scheelite.

Bohdan Romaniuk, Non-executive Director

Bohdan Romaniuk is an attorney, economist and business executive. He has held a number of executive positions in small and large companies spanning 30 years. Mr Romaniuk has extensive Board and Audit Committee experience in public and private companies and serves as Chairman of the Board and Audit Committee of Acceleware Corp, a TSXV-listed company specialising in high performance computing applications for the oil, gas and computer engineering markets. In 2012, Mr Romaniuk was appointed a part-time Commissioner of the Alberta Utilities Commission. Mr Romaniuk has a BA (Hons) in Economics from the University of Alberta, an MA in Economics and Ph.D in Economics from Queen's University in Kingston Ontario, and a LL.B from the University of Toronto.

Company details

Real Energy Head office: Level 3, 32 Walker St, North Sydney, NSW 2060.

www.realenergy.com.au

Strata-X Head office: 1620 Market St, Denver Colorado, USA

www.strata-x.com



Analyst Verification

I, **Stuart Baker** as the Research Analyst, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

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[Breakaway Research Pty Ltd](#)
AFSL 503622 ABN: 39 602 490 906,
T+61293928011
169 Blues Point Road
McMahon's Point, NSW 2060