central PETROLEUM LIMITED

Company Insight
the intelligent market update

Central Petroleum Limited **Date of Lodgement: 24/7/13**

Title: "Company Insight – Surprise Development & Corporate Restructure"

Highlights of Interview

- **Updates Surprise development including scope, timetable & financing.**
- **Explains amount of acreage farmed out, great significance of farmouts & amount kept 100% by CTP – discusses prospectivity of all acreage.**
- **Farmouts allow large amounts of exploration expenditure to be underwritten by others & will unlock vast potential of Amadeus & Southern Georgina basins.**
- **Surprise West to generate $7m p.a. free cash flow excluding Surprise East.**
- **Now very well funded with most major commitments covered.**
- **Cash burn rate has been reduced dramatically & strategy is to have other parties fund exploration rather than going to shareholders.**
- **Discusses potential to add to Resources & outlines exploration programs.**
- **Acreage has very significant prospectivity – view supported by Santos & Total.**
- **Exciting 12 month outlook & expect to add great value to Company.**
- **Longer term just as exciting as exploration broadens through each basin.**

Record of interview:

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Central Petroleum Limited (ASX code: CTP; market capitalisation of ~$140million) has approved the first stage of development at the Company's Surprise oil discovery in the Amadeus Basin in the Northern Territory. Can you explain the scope of the Surprise project including the planned operations, financing and timetable?

Managing Director, Richard Cottee
Surprise was discovered in January 2012 and since then we've done 6 months of extended production testing, 3D seismic and calculated Reserves. All those were necessary in order to obtain a production licence because a production licence requires a production plan environmental impact assessment and cultural heritage approval through the CLC. We expect to receive the production licence by the end of this year.

We have a 2C Resource of 5.85 million barrels of oil and we are now fully funded for the development of Surprise West, being the western portion of the greater Surprise structure, at a cost of up to $5million.

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How does that fit with your farmout deals with Santos and Total (see separate ASX announcements), including acreage, prospectivity, terms, exploration timing etc.? To what extent does that leave CTP with oil and gas assets that you have not yet farmed out?

Managing Director, Richard Cottee
We've farmed out approximately 20 million acres and we've retained 100% of around 30 million acres including Surprise. Most of those 30 million acres requires native title clearance before the expenditure commitment can occur. Importantly, we have retained most of EP 115 together with the area between Palm Valley gas field and Mereenie (oil) fields which we believe is prospective for both conventional and unconventional Oil & Gas resources.

The farmout deal with Santos covers around 142,000 square kilometres and has $30million of free carried exploration to us in the Amadeus/Pedirka Basin south of Alice Springs for stage one. The farmout with Total involves a free carry to us of US$48million in the Southern Georgina Basin for stage one and within this farmout deal Central Petroleum has to pay $12million at the end of stage one which will be around the fourth quarter in 2014.

As a result of the deals and cost controls we have been able to reduce our net cash burn rate by two thirds. In other words this has reduced from around $1.5million a month to around $1.5million a quarter – notwithstanding around a 600% increase in annual exploration expenditure and around a 25% increase in staff.

There is no material relinquishment involved with the 30 million acres we have retained at 100% equity and we are the operator of the areas we've farmed out to Total, meaning that we will be able to build a strong operational team.

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When will Surprise and those farmout deals start to generate revenue?

Managing Director, Richard Cottee
For Surprise East that will be dependent on when we receive the production licence, but we expect production to commence at Surprise West by the end of this year. Surprise West should generate around $7million of free cash flow per annum.

Providing we can do a small farmout on Surprise we may even be drilling around one hole per month next year. Certainly at Mt Kitty, under the Santos farmout, we expect to be exploring around the end of the year. The exploration program covering the acres with Total has already started and we expect by the end of this dry season to have 3,000 kilometres of seismic completed.

The acreage covered by farmouts with Total and Santos has exploration and drilling programs that are expected to finish around the middle of 2014, so we will be in a position to make a call on the future of those assets once we get some information from those programs.

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What is your funding position and broad expenditure commitments now that you have completed these farmouts?

Managing Director, Richard Cottee

We have no uncovered expenditure commitments other than the tail-end contribution of $12million on the deal signed with Total. The Santos deal is a complete free carry for Central Petroleum. We have about $7.5 million cash in the bank and as I said earlier we expect around $7 million in free cash flow per annum from Surprise West alone. If Surprise East is developed obviously that annual free cash flow will increase.

So you can see that as a result of the two farmouts we are pretty well covered on all our expenditure commitments.

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Further on funding, the Company announced it will fund Surprise development through the proceeds of a research and development tax incentive refund from the Australian Commonwealth Government. Can you explain the significance of that?

Managing Director, Richard Cottee

The rebate was extremely important for us in the sense that it enabled the Company to commit to develop Surprise West. More importantly it has improved our negotiating position on farmout deals because, while ideally we would like farmout partners, we do not need them to grow as a Company.

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Why did you not 'go it alone' instead of farming out large acreage to Santos and Total?

Managing Director, Richard Cottee

We thought it prudent to cover our expenditure commitments – over $350million in exploration expenditure is now committed on those acres. The Company had already issued 1.3 billion shares to underwrite expenditure on 85 million acres and we think, by farming out 40% of the acreage to Santos and Total in return for a commitment of $350million, it is a fantastic outcome with no further dilution to shareholders.

We also get the advantage of the experience and capability of very large oil and gas companies being brought to bear on those assets. Finally, exploration is a risk management game and by farming out a portion of the acreage we can expedite the exploration process and hopefully make some additional significant discoveries.

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Can you clarify the current Resource/Reserve position at Surprise West and the potential to add to those?

Managing Director, Richard Cottee

At Surprise we currently have a resource of 17.7 million barrels of oil-in-place with a recoverable resource of 5.85 million barrels. That is based only on the Lower Stairway sandstone reservoir, whereas at Mereenie oil field the Pacoota Sandstone has been the most prolific producing reservoir. Because the Pacoota was not found to be oil bearing in Surprise 1, no reserves have been attributed to this reservoir. In other words, the Pacoota formation is not included in those resource numbers at Surprise. We believe, however, that oil could be trapped in this reservoir in other parts of the greater Surprise structure such as Surprise East.

The oil is the same type of oil at Mereenie and we are very hopeful of finding oil traps from the same source.

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What further development, appraisal and exploration do you intend at Surprise including the Surprise East development? What do you expect to achieve from developing the remainder of Surprise (apart from the current Surprise West development)?

Managing Director, Richard Cottee
There's very significant potential at Surprise East, and we'll be looking to explore that separately to the Surprise West project. We will undertake an exploration program which will target conventional oil traps both in the Lower Stairway Sandstone and the Pacoota Sandstone. At the same time we will core the underlying Horn Valley Siltstone ("HVS") and once we have those results we could drill horizontal wells to evaluate the unconventional potential of this formation.

There are a lot of good targets to test in the 0.5 million acres we're intending to farmout.

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Given the Company had had prior success at Surprise, why didn't you simply drill a second well adjacent to Surprise-1?

Managing Director, Richard Cottee
The answer is fourfold – timing, legal, risk management and funding. You can't actually produce until you have a production licence and you can't get a production licence without a development plan and you can't have an adequate development plan until all the geology and engineering is completed, plus environmental and cultural heritage approvals received. We needed to ensure that we could legally extract oil from the Surprise West discovery. It would be a poor use of funds to expend capital on a development and then wait for a production licence.

All in all we want to have a greater certainty on production from Surprise West before we drill nearby Surprise East. We thought it more prudent to further evaluate the area around Surprise East to see if we could identify a sweet spot for drilling that might have been overlooked when the well was first drilled. Given that the company has conducted a lot of appraisal work – including 3D seismic – after the initial well was drilled, we're confident that we'll now be able to optimize our drilling in the area and make the most of the sizeable resource in place.

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Other than Surprise, what are your most prospective permits - and how confident are you about them based on pre-drill exploration?

Managing Director, Richard Cottee
Total said that they saw almost limitless potential for hydrocarbons in the Southern Georgina Basin. With around 300 metres in thickness, the right thermal maturity and high organics contents, Southern Georgina Basin could be a very large producer of gas in the future and it is situated next to the Carpentaria Pipeline (Ballera to Mt Isa). Santos has one of the best exploration databases in Australia and clearly they believe the Amadeus/Perdika acreage where exploration is targeting sub-salt plays has enormous potential as well.

As I said earlier, we have kept 100% of the acreage between the Palm Valley and Mereenie fields and the area around Surprise is our main target at this stage. We still have a huge amount of acreage in the Amadeus Basin, and the areas associated with the Horn Valley Siltstone are particularly interesting because that formation could likely be the source of unconventional oil and gas in the region.

There is a large amount of existing infrastructure in the Amadeus Basin, we are clearly the most dominant company in the Basin and with new technology we see enormous potential for significant new discoveries. Between Alice Springs and Tennant Creek we also have a substantial position in the Wiso Basin, and the potential there is something that excites us as well.

Overall, the resources we're targeting are very significant for a company of our size.

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What additional infrastructure might be needed in Central Australia to enable CTP and other companies to develop the assets in the area?

Managing Director, Richard Cottee

As I said, there is already a large amount of existing infrastructure and we'll target our exploration so that it is, at least initially, close to that infrastructure. Santos is producing oil at the Mereenie field and gas is being produced at the Palm Valley field. Road and rail are in place to transport oil and gas to Darwin where there are obviously existing export facilities. As we discover more oil and gas we can step further away from existing infrastructure to explore for more discoveries and that may require incremental infrastructure, but we would then be in a strong financial position to finance that if required.

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Do you intend to sell any more non-core assets such as the coal tenements you recently sold for $1.8 million?

Managing Director, Richard Cottee

No, unless there is potential for more farmouts on the oil and gas acreage. We may farmout packages of 0.5 million acres at a time if it's attractive.

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What is your 12 month outlook for Central Petroleum, and what do you see as the major goals for the next year?

Managing Director, Richard Cottee

I've been at Central Petroleum for a year now and initially had a 10 point plan which we've successfully completed. The main tasks during that period were to restructure the Company and the balance sheet and complete the farmouts.

The next 12 months are really about 3 things:

- The development of Surprise and commencement of production;
- Commencing an intense seismic and drilling program in conjunction with Santos and Total; and
- The ongoing re-capitalisation of the Company as part of our transition from an explorer to a producer.

More specifically, some of our other major objectives over the next year include acquiring 3,000 kilometres of seismic, gaining a better understanding of Surprise East, hopefully drilling Surprise East-1, drill 2 to 4 holes at Surprise East if Surprise East-1 is a discovery, drill Mt Kitty and drill up to 6 holes in the Southern Georgina Basin.

There's a lot of activity, but now that we have restructured the Company and have underwritten the large exploration programs, we are in a position to add enormous wealth for shareholders.

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Further on that issue, what is the longer term strategy to add value for Central Petroleum's shareholders beyond 12 months?

Managing Director, Richard Cottee
Short term we're looking at a model of using revenue from Surprise to fund corporate costs and overheads while exposing our shareholders to what we see as large blue sky potential assets. The longer term strategy is to further de-risk our acreage so that we can underwrite additional large exploration programs. My plan has always been, where possible, to use other people's money to develop assets so we can preserve shareholder wealth and assets by avoiding dilution.

With acreage approximately the size of France, we have plenty of scope to increase our exploration and development activity and add significant wealth for shareholders. It really is an exciting time for Central Petroleum.

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Thank you Richard.

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