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**Central Petroleum Limited**

**Date of Lodgement: 23/1/12**

**Title: "Company Insight – Significant Oil Flows at Surprise"**

**Highlights of Interview**

- **Most significant event in the Company's history.**
- **Explains significant results of flow testing at Surprise of 380 bopd.**
- **First oil to surface in Central Australia since mid-1960s.**
- **Proposed extended production testing could deliver cash flows in 2 to 3 months.**
- **Impact on prospectivity and Central Petroleum's tenement values.**
- **Impact on Central Petroleum's funding position and current Share Purchase Plan.**

**Record of interview:**

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Central Petroleum (ASX CTP: market capitalisation of ~A\$60 million) recently announced the successful flow testing at 380 barrels of oil per day via a 32/64" choke for its Surprise-1 Re-entry H well in the Amadeus Basin the Northern Territory. What were the background circumstances that led Central Petroleum to drill the well and conduct the flow testing?

**Managing Director, John Heugh**

Firstly, before I outline the circumstances leading up to the well, this result has been the most significant event in Central Petroleum's history. The Surprise-1 REH well has flow tested at 380 barrels of oil per day (bopd) and the prospect may have the potential for us to double that with additional drilling. At 300 bopd, for example, if such a flow rate was sustainable, it would generate annual gross cashflow of around \$10 million at today's oil price (we own 100% of Surprise). That is significant, considering our market capitalisation is around \$60 million.

But back to your question, although we've been investigating oil in Central Australia since 1997, we did not drill our first conventional well until 2008. We subsequently drilled a number of targets, the most significant one of which was Johnstone West, which, together with our seismic work on the Johnstone trough structure, indicated a very nice rollover or dip closure. Then, after some follow-up seismic work, we identified close to a large oil kitchen, the Johnstone Trough, a 4-way dip closure, the target of the Surprise-1 well. This was drilled in November/December 2010 and showed the existence of oil beyond any doubt with an unrisks target of about 10 million barrels of oil in place at P50 level and good permeability, at least in part, in a 9m core that was retrieved from the well.

Unfortunately, a rig incident meant further drilling and flow testing had to be deferred and we had to terminate the drilling contract. Then with the difficulty of securing drill rigs in Australia we were unable to start to redrill Surprise until November 2011. But by then, we'd hired Dalton Hallgren, a

horizontal drilling specialist from the US, who reviewed our data on the first well and convinced us that the best approach to deliver early production and cash flow was to drill a horizontal section into the zone we'd already cored, and to flow-test it.

As I said, the result of this has been the most significant event in the Company's history.

Flow testing achieved a sustained flow rate of 380 barrels of oil per day via a 32/64" choke over a 230 metre horizontal section and a Gross Vertical Thickness with continuous oil shows of approximately 28 metres. There are additional oil shows above this giving a potential maximum thickness of oil shows in the Stairway Sandstone of some 68m; we are not sure at this stage whether this is a continuous oil column or not but this is a very positive result.

Further, the product is a light sweet crude with API Gravity averaging 40 degrees - a quality that attracts TAPIS benchmark prices (that are currently around \$120 a barrel). This is an eminently saleable product.

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How do you assess the significance of the first Surprise flow test?

#### **John Heugh**

Firstly, this is the first oil flow to surface since the discovery of the Mereenie oil field back in the mid-1960s.

Secondly, this is the first Australian onshore horizontal well to my knowledge that has produced any oil to surface.

Thirdly, we expect to generate cash flow within 2 to 3 months. We expect to successfully obtain approvals from the Northern Territory Government for an extended production test, and we'll ready the site with tanks and treatment facilities so we can truck the oil for sale in either Darwin or South Australia. We plan to run an extended test for 6 to 12 months. This will allow us to fully clean up the well, to demonstrate the well's sustained flow capability and to derive the right choke sizes to maximise continuous flow without damaging the formation. This will also help to refine the oil pool size.

We do not know what sustainable flow rates may be achievable over a long term Extended Production Test; the well may clean up further, or it may not, but if we sell oil at a TAPIS benchmark of A\$100 per barrel for example, the cash flow would be considerable to the Company.

There's also an opportunity to drill a second well in about 2 to 3 months' time - which we're debating at the moment - because from a production and marketing perspective we might double the field's production and cash flow based on the first well's demonstrated flows.

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Did the recent well confirm your views about the dimensions of the reservoir? And what will be the Company's next exploration and development steps at Surprise?

#### **John Heugh**

From the well data, flow-tests, pressure responses, logs and other data that we've been able to collect, we hope to come up with a more accurate estimate of oil-in-place in the structure, but we

don't have enough data at this stage to reach accurate conclusions or to predict the reserves we have in the ground. To do this, we'll need at least two to three wells and a 3-D seismic survey, but certainly a second well would give us a good basis to begin fine-tuning our forecasts of the Surprise prospect.

Having said that, our analysis of all available logs, seismic, well flow and pressure test information should give us a better idea of the dimensions of the oil we have in place in about two to four weeks from now in this particular part of the Surprise structure.

If we don't decide to drill a second well now, we'll be doing 3-D seismic before we next drill. However, if we proceed with the second well based on our 2-D seismic and existing knowledge base, we'll supplement the information afterwards with 3-D seismic. Thus, either way, we'll have the basis for reserve estimation and future well locations.

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We see that Surprise initially tested at 300 barrels per day via a 24/64" choke and then tested at 380 barrels per day via a 32/64" choke. What exactly does this difference mean?

**John Heugh**

We alter choke sizes in order to test for the optimised basis to maximise production. However, another reason for the changed oil flows was that we were initially recovering a lot of drilling fluid, particularly from the horizontal section that was full of it, so after that was brought to the surface and disposed of, the proportion of flow that was oil rather than drilling fluid increased.

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What is the likely timing of the process at Surprise?

**John Heugh**

If the Board decides to drill the second well before the 3-D seismic, we think this would be spudded before the end of March this year. We are also actively discussing the commencement of 3-D seismic work over the Surprise area, possibly with a view to the field work being finished, processed and mapped around June or July this year.

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Why do you say the Surprise flow rates materially enhance the prospectivity of Central's extensive acreage in the immediate region and more broadly in the Western Amadeus Basin?

**John Heugh**

Before this well was drilled, there was only one other significant well (Johnstone) that had provided excellent oil shows west of the producing Mereenie oilfield, but it did not flow oil to surface. Now that Surprise has flowed oil to surface, this changes the picture because it demonstrates an active petroleum system where Surprise is located – in about the middle of that section of the Amadeus Basin that runs from the Mereenie oilfield across into Western Australia, a distance of about 400 to 500 kilometres. That's why we say this result has enhanced the prospectivity of the area generally, but the real significance is for our prospects and leads in the near vicinity, i.e. within several kilometres of Surprise.

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Has this result changed Central's exploration agenda? What will be your next exploration steps?

**John Heugh**

We are debating this within the Company at present, but it won't be until we've properly analysed the information from Surprise that we'll be able to identify what we do next. We have several other wells to which we are committed including the Mount Kitty well (gas, condensate and helium in EP 125) by December this year; one oil well in EP 97 before December this year where we're farming into several blocks including one with an interpreted very large central Asian style Devonian reef oil play; and there is also another commitment well in the Amadeus Basin in EP 112, probably gas but maybe with condensate and helium credits.

The Western Amadeus will clearly be the area where we initially concentrate our spending and the cash flows from production testing will permit better planning of meaningful exploration and development around the Surprise area and within EP 115 generally. We also have additional oil prospects in EP 115 at North West Mereenie for example, along strike from the producing Mereenie oil and gas field structure.

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What are the implications of this result for Central Petroleum's funding position and major expenditure commitments?

**John Heugh**

At this stage, the longer-term consequences are obviously speculative and we can't provide forecasts in these circumstances. However, because we have a well that has produced at 380 barrels a day, if we assumed for example a sustained flow rate at 300 barrels a day average for 6 to 12 months for the production testing period, that represents a material gross cash flow to the Company because oil of TAPIS benchmark quality sells currently for at least \$100 a barrel.

If we drilled a second well into the Surprise structure it might potentially double that rate, which would mean a significant impact on Central Petroleum funding its development and exploration costs. However, I must emphasise that this is all dependent on the results of the extended flow testing.

The final impact on the Company's Share Purchase Plan remains to be seen, but with the announcement of the oil discovery we have had a lot of activity bearing in mind that the offer closes on 25 January.

During the course of the current financial year to date, Central Petroleum's share price has consistently outperformed the ASX top 300 energy stocks apart from several days where it matched the index; this should give investors a degree of confidence to invest further in the Company.

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In summary, what are the implications of this result in terms of your short and long term goals for Central Petroleum?

**John Heugh**

Our short term goal has always been to produce crude oil and cash flow as soon as possible and with Extended Production Testing; we are now making the transition to a production company. Cash flow generation should begin in the next 2 or 3 months under extended flow test conditions where we will be able to sell the quality oil that is produced.

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Thank you, John.

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- Magee Prospect Block, portion of EP 82 – HEA 84.66% and OGE 15.34%.
- EP-93, EP-105, EP-106, EP-107, EPA-92, EPA-129, EPA 130, EPA-131, EPA-132, EPA-133, EPA-137, EPA-147, EPA-149, EPA-152, EPA-160, ATP-909, ATP-911, ATP-912 and PELA-77 - Central subsidiary Merlin Energy Pty Ltd 100% ("MEE").
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