

## Rewards start to flow for Central's true believers

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**NEW onshore oil provinces are rare in Australia, so two such discoveries in the past three months should be generating plenty of buzz in the industry.**

The first of the recent discoveries, Buru Energy's Ungani field in the Canning Basin, has more than doubled Buru's share price and sent other explorers scrambling for nearby acreage opportunities.

Less excitement, however, has followed Central Petroleum's success this month at flowing 400 barrels of oil a day to the surface after the Surprise-1 re-entry horizontal well in the western Amadeus Basin in the Northern Territory.

Central's share price has lifted with the news, although it is still less than 10% above the 5.5c-a-share price of a placement back in September.

The subdued market reaction could reflect a couple of factors. Central Petroleum, which listed in 2006, has always been a bold exploration play and a vehicle for true believers.

The company also left the market wary last year when management said Johnstone West-1, just 8km from Surprise-1, was likely to flow oil to the surface, but subsequent flow testing failed to deliver.

The disappointment overwhelmed the fact that Central, with just its second well in the Amadeus Basin, had found a new petroleum system some 250km west of the Mereenie oil field.

But Surprise-1 and its re-entry horizontal sidetrack have followed the script presented by Central Petroleum managing director, John Heugh.

"We had truly excellent live oil shows at Johnstone. When we drilled we saw immediately that the Horn Valley siltstone was present, along with the Lower Stairway sandstone with live oil in it.

"Therefore, we reasoned that although the Johnstone structure has considerable potential, another prospect that might be closer to the source kitchen, seemed like an attractive proposition.

"So we did more seismic and we came up with a one-line anomaly, a well defined rollover in two dimensions, which was the start of the Surprise prospect. We went back again and did a 2D grid over it, and a beautiful bump developed just right next to the Johnstone trough.

We thought: 'Wow what a pleasant surprise!' so that's what we called the prospect. It was a nice, four-way dip closure, not a huge one, probably in the order of up to 10 square kilometres maybe."

The original oil-in-place estimate for Surprise was 10 million barrels, a P50 estimate based on the assumption the oil reservoir would be the Pacoota and Stairway sandstones. As it turned out, the oil at Johnstone West-1 and Surprise-1 is in the slightly younger Lower Stairway sandstone, sitting on top of the Horn Valley siltstone, which is almost certainly the source rock. The same Ordovician source rock is the basis of the Mereenie oil fields.

While the market is anxious for further news about the size of the discovery, it seems only a matter of time before Central drills more oil-producing wells. It already has a good grasp of the petroleum system in its new oil province, and applying 3D seismic could be expected to produce similar success rates to those achieved by operators in the Cooper Basin.

Central will announce in the next week or so whether it will drill immediately a second well at Surprise with the aim of doubling its hoped-for production level to about 800 barrels a day, or wait to run more seismic.



Oil coating 6-inch drill bit during horizontal drilling operations

An immediate second well would allow Central to estimate a band of possibilities of potential reserve size. A firm figure on 2P reserves would require 3D seismic and at least another two or three wells, according to Heugh.

While reaction on the share market has been subdued, Heugh says there has been no shortage of interest from other companies seeking a joint venture.

Central holds all of the prospective ground in the western Amadeus Basin, so negotiating with Heugh is the only way they can get a slice of the action.

"We're in no hurry to farm out the ground where we have just discovered oil, but of course that's the ground where everyone now wants to farm into. The phone has been running hot.

"Preferably we would like to do some large broad acre farm-outs - between half a million and maybe two million acres of unconventional potential in the Amadeus Basin and southern Georgina. That's what we're shooting for now.

"We have various levels of interest being expressed by these groups we're talking to, including four or five international majors."

He said the discovery of producible oil at Surprise was having a halo effect on all of the company's farm-out efforts.

"It gives us a big, fat tick in the box for all the things we have been saying over the years about the prospectivity of our acreage in central Australia."

Heugh claims that Central has the biggest cohesive package of 100%-owned prospective acreage in the developed world, and points out that even ExxonMobil's vast acreage in North America is divided into geographically small pockets and shared among multiple owners.

"Our preference is to do a series of farm-outs to companies that have a substantial enough bottom line so they don't have to go out and raise money to participate in a seismic and drilling programs.

"I could have done a dozen deals yesterday with groups that want to get their foot on some acreage, and raise the funds to go and drill it, but that's not the approach we want to take. We've done that once or twice before and it's burnt us pretty badly, so logically we will waiting until the right partners come along with the right balance sheet to sustain a very hefty exploration program.

"We're not going to do just one or two farm-outs we have enough room in our acreage to do a dozen farm-outs, there's no question about it."

For the sceptics, Central has always seemed to represent impossibly large expanses of blue sky. But the true believers will begin to be rewarded in 2012 as the company converts exploration hopes into oil revenue.



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