CEO CFO

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As the First Company in Australia to Produce Oil to the Surface From a Horizontal Well Onshore and a Second Production Well on the Same Structure, Central Petroleum Limited is Now Positioned to do Some Fairly Significant Farm-Outs

Energy
Petroleum
(CTP-ASX)

John Phillip Heugh BSc. (Hons), MPESA
MPESA Managing Director

BIO:
Mr Heugh has over 30 years experience in petroleum and mineral exploration and has worked in a consulting or subcontracting role for Esso, Wapet, Pancontinental Petroleum, Santos, Western Mining Corporation, Bridge Oil, Ampol, Kuwaiti Foreign Petroleum Corporation (IEDC subsidiary), Arco and Chevron-Texaco. He has undertaken studies in oilfield drilling technology and development from the University of Texas and was a founding Director of Labrador Petro-Management Pty Ltd.

Company Profile:
Central Petroleum Limited is an ASX listed junior exploration and production company operating the largest holding of prospective onshore acreage in Australia totaling over 270,000 km^2, c.70 million acres. This acreage includes permits already awarded and acreage under application with 250,000 km^2 under the Petroleum Acts and 20,000 km^2 under the Mining Acts mainly in the Northern Territory with smaller holdings in Western Australia, South Australia and Queensland.

The acreage is entirely onshore and because of this, drilling costs are a fraction of those generally encountered offshore. The Company operates this acreage in one of the most fiscally and politically stable countries in the world, Australia.

The Company's main goal is to maximize shareholder returns by enhanced share value and ultimately by dividend payments. It aims to do this by operating a central Australian petroleum hub connected to appropriate infrastructure to allow the export to domestic and overseas markets of both primary energy resources and value added petroleum and helium products.

The Company plans to potentially capitalize on early cash flow from an oil discovery and is seeking to build gas resources to a threshold point where value-adding processes such as LNG and or GTL, for example, can be brought into play. With helium prices approaching $200USD/1,000 scfg in Asia, helium production and sales are regarded as an intrinsic part of this overall strategy. Apart from conventional gas potential, the Company has had independent estimates of over 10,000 trillion cubic feet in UCG "syngas" prospective recoverable resources as well as 5 billion barrels oil and over 40 tcfg in the same resource category. There are large areas of coal in the Permian Pedirka basin where an independent JORC Exploration Target of over 300 billion tonnes of coal shallower than 1,000m has been generated.

The acreage includes the majority of the Pedirka Basin within the Northern Territory and South Australia, the majority of the Amadeus Basin in the Northern Territory, all of the known Lander Trough in the Northern Territory and approximately 25,000 km2 of the Southern Georgina Basin.

The Company was formed by Mr John Heugh and Mr Richard Faull in 1998 in a countercyclical strategy aimed at securing large acreage tracts with large prospective target structures in central Australia. Central Australia contains one commercial oil field and one commercial gas field with another large gas discovery remaining undeveloped. It is very probable that more commercial accumulations will be discovered, hence there is potential for the monetization of possible oil resources through trucking, rail or pipeline infrastructure. There is also potential for monetization of possible large gas resources via Gas to Liquids (GTL) Fischer Tropsch (FT) processing to produce zero sulphur diesel, naphtha, jet fuel and LNG technology.

Very large coal accumulations present

in the Pedirka Basin are also being explored with a view to examining monetization via very large scale beneficiation and export, coal to liquids (CTL), co-generation of power and underground coal gasification (UCG). Any gas produced by UCG or coal gasification could be applied conceptually to value adding processes such as FT liquid production.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

CEOCFO: Mr. Heugh, what is the history of Central Petroleum?

Mr. Heugh: Central Petroleum was started in 1997, when myself and Richard Form, my co-founding director and I, saw an opportunity to put together large acreage positions in areas that were demonstrably prospective for oil and gas. The areas had previous discoveries, but obviously the area was neglected because of the low price of oil. In 1997, the average price of oil throughout that year was about $10 to $14a barrel. That gave us the opportunity to start assembling this large acreage position that the company now enjoys operatorship of. The company was listed on the ASX in March 2006. So it was not really until the price of oil rose to about $30 (US) barrel on a sustained basis that we had the opportunity to list the company, raise some more substantial funding and do some seismic and some real drilling of the acreage that we have. Since then we have also consolidated our acreage position on the acquisition of 4 other companies that had similar ideas, but were fairly cash poor at the time. With a combination of cash and stock with some stock options we bought out these 4 other companies properties, so today we have approximately 70 million acres, 60 million acres of ground under the Petroleum Act, and 10 million acres of ground under the Mining Act. We have drilled 5 conventional wells, and we have a discovery well on our hands with Surprise, the last well that we drilled, which was flow tested recently at 400 barrels a day of Light Sweet Crude from the horizontal section. We had 3 other wells that had good oil showings below the surface and one flowed gas to surface and has outlined possibly about 2 trillion cubic feet of gas in a large structure. We also intersected coal seams in the Permian Pedirka Basin and we now have in the Pedirka Basin a joint oil reserves committee exploration target category tonnage of coal well in excess of 300 billion tonnes of coal, shallower than 1000 meters.

CEOCFO: How do you decide where to look and what to look for, as you go forward?

Mr. Heugh: It is very easy. Fundamentally, the company is focused on crude oil discovery and exploitation, production and marketing for early cash flow, followed then by gas condensate and helium targets that we have in the Amadeus Basin. We have a significant number of sub-salt targets, one of which has been drilled before and produced gas, condensate and helium to surface, with the helium at unusually high concentrations of about 6.2%. Helium is a very valuable commodity currently trading at about $200 US per 1000 cubic feet throughout Asia for bulk grade A industrial helium. So that is our number two target basically, the exploitation of helium, with condensate and gas as a byproduct. Currently, we have some large gas prospects, both conventional and unconventional and we believe that running gas through a centrally located gas to liquid plant, is a good way to send value added products throughout Australia and from Australia to other places,. Coal monetization is a longer term strategy for the company as we have options to mine coal and export it. We also have options to mine coal and run it through a Coal to Liquid plant to produce petroleum products and we are really interested in underground coal gasification. We hope to start some trials in a year or two to look at underground coal gasification to produce "syngas" to surface, which we would then run through a GTL plant to produce petroleum products such as diesel and jet fuel. The catalyst to the last project, that is underground coal gasification, would be the efforts of two other companies, LINC Energy and Eskom. We believe that LINC is about to announce plans to commission a UCG to GTL plant in Wyoming in the US. And Eskom in South Africa, are already using UCG to partially fuel a coal fired power plant. I believe that they are planning a 2000 megawatt power station fueled entirely by UCG. Those are the avenues for revenue for this company and it is a fairly easy choice of going for crude oil exploitation, because it is an eminently saleable product. 99% of all crude produced onshore in Australia, is Light Sweet Crude that sells in our neck of the woods, at what they call the TAPIS benchmark price, which is consistently 15% to 20% above the price of WTI. Australia is not self sufficient in liquid petroleum transport fuels and of course we are surrounded by a very energy hungry region of the world, which is Asia, China, India, Southeast Asia, and none of those countries are self-sufficient in liquid petroleum product either, so there is no problem with marketing crude out of Australia.

We have been the first company in Australia to produce oil on the surface from a horizontal well onshore, so that is basically winds the clock back in comparison to North America, to about sixteen to twenty years ago when they started drilling the first ever horizontal wells onshore to exploit shale gas and shale oil. - John Phillip Heugh BSc. (Hons), MPESA

CEOCFO: How supportive or non-supportive is the government where you are working?

Mr. Heugh: We do have more less three forms of government agencies to deal with. We have the Northern Territory government, which is a territory government, not a state government, and of course, it is trying to reach statehood as soon as possible. It needs to meet the minimum population and minimum balance in revenues to become a state. So, the Northern Territory state government is usually very cooperative here, and pro-development. Any infrastructure that we want to develop it will probably fast track for us, so there is very little impediment there other than what every government brings to the table, that is royalties and of course there is the usual elements of red tape and bureaucratic process to deal with, but by and large they are the least of our problems. The Central Land Council, which is a corporation set up by the National Federal Government charter is somewhat different to deal with. These people are under resourced in their own right. They are an active intermediary between us and the traditional owners on the ground, which is the indigenous aboriginals who are on most of the ground. Unlike the US, the crown, that is the government, holds the rights to the minerals and oil. Anything under the ground belongs to the crown, but we still need to negotiate access agreements and exploration production agreements with the Central Land Council. This process has proved to be very difficult at times. The Central Land Council seem to have absolute autonomy in they way that they do their business. They do at times have a very heavy handed approach to dealing with companies such as ourselves and they have proved difficult to deal with on occasion. We are working on improving this relationship for the good of all concerned. The federal government, we have very little to do with in the Northern Territory. All of the minerals and oil that we may produce would be administered by the Northern Territory government. However, what the federal government has done recently, it tried to put through legislation that will include the petroleum resources rent tax and the mineral resources rent tax, plus the infamous carbon tax that they just recently passed has done not only this company, but the whole nation a profound disservice.

CEOCFO: Would you tell us about the discovery at your Surprise Well, and what changes now for Central Petroleum?

Mr. Heugh: What changes now with the discovery at Surprise is basically that we are poised to become a producer and that is the holy grail of every new exploration float. Whether it is an oil company or mining company, the first thing you want to do is make a discovery and then start producing cash flow to offset the massive exploration cost that you had. So we are about to commence an extended production test on the Surprise Discovery Well. I am hoping that our board will give us the green light to go ahead and drill a second well on the same discovery without pausing to do more 3D seismic, so that we can get two wells on stream into production mode and will extend the production to develop significant cash flow into the company. Throughout the production, we will be applying to the governments and the Central Land Council for our production license and hoping to make a seamless transition from the extended production test, through to production under a petroleum production license.

CEOCFO: Do you have the personnel in place?

Mr. Heugh: We are ok where we are now for the time being. There are consultancies and contractors that we can use to take care of the production facilities. There is another company that we surround in the Amadeus Basin called Santos. They have oil export facilities and they have indicated a willingness to buy the oil from us, with us trucking it with Port Bonythonin South Australia, which is a short term marketing solution for us. We also have other options such as trucking to the refinery at Eromanga or trucking to Port Darwin. However, if we make further discoveries in this area of oil discovery at Surprise, and have to exploit them, we are going to have to make additional staff available. Therefore, we have prepared a plan for that already and then the company hopefully will grow very quickly. Getting all the staff is not easy. We have chosen to go outside of Australia for two recent senior appointments. Trevor Short, our new exploration manager is from Calgary, and he has had a lot of unconventional production geology experience. There is also Dalton Hallgren, our chief operating officer or VP of operations, who we using to head up our drilling, operations and production processes. Those guys bring a lot of unconventional experience with them, which Australia just does not have at this stage. We have been the first company in Australia to produce oil on the surface from a horizontal well onshore, so that is basically winds the clock back in comparison to North America, to about sixteen to twenty years ago when they started drilling the first ever horizontal wells onshore to exploit shale gas and shale oil.

CEOCFO: Is the investment community paying attention?

Mr. Heugh: Not sufficiently; not as much as we thought. Here in Australia traditionally, most of the stockbrokers, financiers, bankers and the heavy hitters in the investment community more or less take a fairly long summer vacation from just before Christmas to late January. So, they are starting to get the message, but I think what would really put this company on the map is a second production well on the same structure as soon as possible, and then we are also poised to do some fairly significant farm-outs in some of their ground. Obviously, this company cannot afford to explore this vast acreage position that we operate in a timely fashion without the assistance of other companies coming in to take farm-in deals. Hess out of the US is very active in the basin north of us, the Beetaloo Basin, and have farmed in through a large unconventional acreage position there. Mitsubishi and Conoco-Philips have farmed in to large acreage positions in unconventional shale plays in the Canning Basin to the northwest of us. In addition, we now have got the BG Group that has farmed-into unconventional acreage in the Cooper Basin to the southeast of us. We are in discussions with a number of international majors concerning mostly our unconventional potential, which constitutes prospective recoverable resources independently written up of 5 billion barrels of oil and over 40 tcf of gas That has caught the eye of some majors and this is where this company is traveling I believe.

CEOCFO: Final thoughts, why should potential investors look at Central Petroleum today?

Mr. Heugh: Because Central Petroleum owns and operates the biggest package of prospective petroleum ground in the world at 100% ownership in contiguous permits in a geographically focused region in the center of a first world country. That is quite a number of caveats but what I am saying here is that Exxon for example, has more exploration acreage than us, but it is scattered out in about fifteen or twenty different countries, and if you look at the situation in the US where a big unconventional deal might constitute a quarter of a million or half a million acres of ground. That gives our package of ground some perspective. It is obviously prospective with very minimal drilling. We have gotten 2 historical oil and gas discoveries in this ground, made by companies back in the mid-1960's. Then we came along and have a gas discovery, an oil discovery on our hands and we have demonstrated this massive exploration project, the coal. It is demonstrably prospective. Therefore, the blue-sky potential of this company is truly enormous. It is demonstrably prospective ground and we have more of it than anyone else and that is why investors should invest in Central Petroleum.

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