

# Central Petroleum Market Briefing by CEO Richard Cottee

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Brisbane, Australia (ABN Newswire) - Last month [Central Petroleum](#) (ASX:CTP) (OTCMKTS:CPTLF) executed a strategic transaction to acquire Magellan Petroleum's onshore Australian assets, and secure a funding facility to complete and develop most of the Dingo gas field in the Amadeus Basin near Alice Springs. Add in the \$300m being spent exploring the Santos and Total farm-out projects and it becomes clear that in the 18 months since CEO Richard Cottee took the helm the Company has bridged the gap between explorer and producer.

## ***What does the Magellan deal involve?***

RC: The agreement included the currently producing Palm Valley gas field, the reserve-certified Dingo gas field and a substantial register of existing production assets that includes compression, gathering and sales pipelines, and 6 completed production wells for \$35 million.

We believe this is great deal. Generally, 6 producible wells will cost about \$8m each, so to get 6 wells for \$35 million, with proven reserves, and without the normal risks, represents value, certainty, and a great leap forward.

## ***Why were Magellan's assets so important to CTP?***

RC: Central already holds an interest in all of the permits surrounding these fields and is in pole position to leverage any success from the circa \$150 million exploration program being undertaken in the area through a joint venture with Santos.

At the heart of the acquisition are gas reserves contained within the Palm Valley and Dingo gas fields. Magellan has reported that these fields already had independent certified 2P reserves of around 53 BCF of gas, which equates to about 10 million barrels of oil equivalent (mmboe).

The acquisition of these reserves will mark an approximately 10 fold increase in reported 2P reserves for CTP relative to a base reserve position of 1.1 mmbl associated with the Surprise oil field.

## ***How is the deal being funded?***

RC: Without depleting our own cash reserves. Central will pay Magellan \$20 million in cash and roughly 39.5 million shares of CTP. The cash component of the purchase price is fully funded through a financing facility with Macquarie Bank. The Macquarie facility also provides \$30 million in funding for the completion of the Dingo gas field, principally a 50km export pipeline from the Dingo field to Alice Springs. Central is targeting completion and first gas sales in Q1 2015.

Contracted sales from Palm Valley and Dingo fields will service the Macquarie facility and also provide a key source of internal capital for the Company. When combined with sales from the Surprise oil field, which are scheduled to commence later this month depending on weather, Central Petroleum will almost instantly transform from an exploration company into an E&P company producing both oil and gas from 3 separate fields.

## ***How does the acquired infrastructure fit into Central's broader asset base?***

RC: The opportunity to acquire in the order of 2,400 hp of installed compression, 6 completed production wells and a variety of existing processing and transportation infrastructure means that the cost, risk and time required to get into full production - and revenue - is much smaller than say a traditional greenfield development.

As well, our new and existing assets are all aligned vertically and horizontally. The properties are lined-up and can be easily linked together, and to the production facilities with the proposed Dingo to Alice Springs

pipeline. That also means the properties can all utilise the same production facilities providing economies of scale. Central always had a lot of territory: now we have production assets to shift us into a full E&P operator which can be leveraged through further exploration.

### **How does Macquarie Bank fit in?**

RC: The Magellan Agreement included both cash and Central shares. The Macquarie debt facility provides funds for both the cash component of the Magellan asset purchase price and completion of the Dingo development. The debt will be fully serviced by project cash flow. The result is that we need to raise less equity capital through the use of debt to fund new production without eating into our existing cash reserves.

Having a major investment bank like Macquarie funding both the acquisition and completion of the Dingo gas field speaks volumes about its confidence in both the opportunity and Central Petroleum's ability to get the job done. The base case for the acquisition gives an Equity IRR (geared) of 19%, but we believe even this is a conservative figure.

### **Where to next for CTP?**

RC: There are a series of obvious optimization opportunities - things like reducing project costs, increasing recoverable gas reserves at both fields, synergies with our Surprise operation, accelerating production and new gas marketing - all contribute to what we see as a very attractive up-side. Then there is the blue-sky in that we will own 100% of the production and transportation infrastructure - including the 50km Dingo to Alice Springs pipeline - which place us in a great position to benefit from future success in our exploration activities and any future pipeline connection with the Eastern markets. We can see a role for the Central Petroleum pipeline inter-connecting Central Australia to the Eastern seaboard gas network possibly through Moomba.

And there is more to come. Shareholders are aware of the Santos and Total farmout projects. By farming out we were able to attract major players in the industry with the capability to aggressively explore the permit areas and commit potentially \$300 million in capex. That's money for exploration that we simply do not have that is now being used for Central shareholders' benefit. This is a major plank of our exploration program and we retain a share of any future upside. Mt Kitty will be the first of the exploration wells, the results for which will be known in April.

Together, the Santos and Total farmouts, Surprise and Dingo fields and the Palm Valley and production capability, represent only about 50% of Central's exploration permits. The rest represents future opportunities that will be available for exploration and potential development once we have the revenue and on-the-ground experience to be an owner-operator. It's an exciting phase of our Company's development in the interests of our shareholders, the Northern Territory and the Traditional Owners of Central Australia.

### **Why doesn't Central extend the expiry date of the Options which expire on 31st March 2014?**

RC: We have researched this point and the ASX has advised that the Company does not have the authority to unilaterally alter the terms of the options. We have seen the precedent created by Australia Minerals and Mining Group Limited which in itself requires shareholder approval which we view as unlikely to be obtained.

### **About Central Petroleum Limited:**

[Central Petroleum](#) (ASX:CTP) is an ASX listed junior exploration and production company operating what is regarded as the biggest package of prospective acreage in Australia.

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