

HIGHLIGHTS

- The recommendations outlined in the ACCC Inquiry into the East Coast Gas Market (reported in the last Quarterly Report) are being taken to the Council of Australian Governments ("COAG") by the Federal Minister for Energy and Environment on 19 August 2016 following the electricity crisis in South Australian and Tasmania.
- A Gas Sales and Prepayment Agreement was signed with Macquarie Bank Limited for 5.2 PJs of pre-paid gas supplied over 3 years with up to an additional 3.5PJs of additional gas sales possible over 2 subsequent years. Immediate payment under this agreement for the 5.2PJs was received by Central.
- The final \$10 million acquisition payment was made to Santos for Central's 50% interest in the Mereenie Oil & Gas Field.
- Central reached a majority of field personnel being locally employed in the quarter delivering on its policies:
 - o Family values for working families
 - o Northern Territory for Northern Territorians
 - o Traditional values for Traditional Owners
 - o Supporting local businesses
 - o Payment of royalties to the Northern Territory Government
- Annual statutory plant inspections at Mereenie and Dingo carried out with Palm Valley providing gas to customers while plants were shut-down.
- Testing of the Stairway Sandstone at Mereenie from the previously drilled West Mereenie-15 continues free flowing gas at an average 1.1 million cubic feet per day (approximately 1.1 TJs/day) with a low nitrogen content of 2.6%.
- Cash balance at the end of the quarter was \$15.1 million.

MANAGING DIRECTOR'S REPORT TO SHAREHOLDERS FOR THE QUARTER

Central Petroleum ended the quarter in the strongest financial position ever with over \$15 million cash available after paying Santos the \$10 million final instalment on the acquisition of its 50% interest in the Mereenie oil and gas field. This completes our strategy commenced three years ago to transform the company from an explorer with small oil production to the largest onshore gas producer in the Northern Territory.

The strategic objective was to cause the Northern Territory to be interconnected with the east coast gas markets to take advantage of the tightening domestic gas market in 2018. This has been achieved with the award of the Northern Gas Pipeline ("NGP") to Jemena. The steel for this pipeline has been purchased, with delivery of the pipe to Tennant Creek anticipated to occur in September/ October of this year. There is nearly 60 TJ/day (over 20 PJ p.a.) available to be contracted, with the Amadeus Basin producers being the only existing onshore producers with the potential of contracting this load. The east coast gas market is showing signs of tightening earlier than anticipated with spot prices in Victoria having reached an intra-day high of nearly \$45/GJ recently.

The recent electricity shortage in South Australia and Tasmania is concentrating the policy makers' minds. For, in the words of the Federal Environment and Energy Minister Josh Frydenberg "We need more gas supply and more gas suppliers"(1). In our view, the most substantive barrier preventing our entry into the east coast market is the backhaul (i.e. no physical delivery beyond Mt Isa) tariffs on pipelines built around 20 years ago being characterised by the ACCC as monopoly pricing. The company believes that these high tariffs should be unsustainable if, as a result, there is economic dislocation in five of the six Australian states, quashing incentives for exploration and reserve development at the same time as starving east coast customers of competitive gas supplies.

If the present spot pricing signals are able to be equitably transmitted to gas producers so as to increase the supply of gas, Central has the potential to substantially increase supply into those states. The recent results of West Mereenie 15 in the Stairway Formation indicates that, with an appropriate ex-field price, a further 200 PJ plus of reserves could be available for the eastern states by the time of the commissioning of the NGP.

Further gas sales were consummated in the quarter with Macquarie for delivery after the NGP has commenced (or 1 January 2019). The sale by Power and Water Corporation ("PWC") of 31 TJ/day into the NGP has further tightened the Northern Territory gas market, removing a substantial overhang; meaning Central's opportunity to contract further gas sales is not wholly dependent on the east coast market.

Central recognises that its future is closely linked with Alice Springs. A year ago 93% of the Mereenie workforce was Fly-In Fly-Out ("FIFO"), thus depriving Alice Springs of a substantial potential economic benefit from our operations. Central, on assuming operatorship of that field, has worked tirelessly to reverse this position, consistent with our three prong employment philosophy, namely:

- (1) Family values for working families;

(2) Northern Territory for Northern Territorians; and

(3) Traditional values for Traditional Owners.

This month we have achieved a major milestone in that now over half of our workforce is locally-based and 26% of our total workforce is indigenous. In addition, we have increased the local economic activity by over \$1.5 million annually. Central also produces the gas used to generate around 40 percent of Alice Springs' electricity. Alice Springs' and Central's economic future are now interdependent. The company intends to further contribute to the economic wellbeing of Alice Springs.

To improve our exposure to rising prices and production, we eliminated our exposure to the Mereenie oil bonus to remove the economic dead spot to our expansion. We have seen the resignation of Tom Wilson from our board. Tom's knowledge of the Amadeus fields was invaluable as we implemented our gas strategy and I'd like to take this opportunity to acknowledge our appreciation of his contribution.

All-in-all, a most satisfying quarter.

Richard Cottee
Managing Director

To view full report, please visit:
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About Central Petroleum Limited:

[Central Petroleum Ltd.](#) (ASX:CTP) (OTCMKTS:CPTLF) is an ASX listed junior exploration and production company operating the largest holding of prospective onshore acreage in Australia totalling over 270,000 km², c.70 million acres. This acreage includes permits already awarded and acreage under application with 250,000 km² under the Petroleum Acts and 20,000 km² under the Mining Acts mainly in the Northern Territory with smaller holdings in Western Australia, South Australia and Queensland.

Source:

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