

Webinar Transcript

Central Petroleum Quarterly Report - 08.02.2018

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Reasonable care has been taken in transcribing the webinar by the author and the following is provided as an aid only. The Author cannot accept responsibility for its accuracy. References to the webinar time clock have been included to help the reader. Users should visit the source video to verify the content of this document.

Legend

- Question Submitted Before Webinar
- Question from Webinar Audience (Q)
- RC Answer (A)
- RC Comment (C)
- 24.47.... Time from Start of Video



Video Link...

<https://www.youtube.com/watch?v=82XR5NvupZo&feature=youtu.be>

Webinar commenced by Reading from formal Webinar Presentation...

0:14 (Webinar Clock)

The quarterly was issued on the 31 January and for the first time in the corporate's history we... **quarter end with no cash burn**... not withstanding that we have been doing a **large amount of catch up work and the Dingo upgrade continues** to be a cash burn item as well **as we have entered into some long term items for the Mereenie plant preparation for the NGP.**

The prime reason why it was only beginning and ending with roughly the same number was that PWC primarily had not taken its starting contract quantity and so in January we received a take all payment of over \$6 million but the government takes off \$600,000 and so the net is \$5.4M that we keep after we pay the GST.

1:30 This January there has been an **uptick in the offtake at Dingo, whereas last year it averaged 51% of the daily contract quantity, for January it averages 71%.**

Basically this is the result of the Owen Springs power station being commissioned in preparation for the closure of the old power station that we weren't supplying.

1:51 Clearly, oil prices have continued to strengthen and are well above our forecast and that continues to have a positive impact on our cash flow.

2:09 **On the exploration front...** the Total acreage that we applied for when the Total joint venture began... we applied for a project status so that we work that we were doing was done in a geologically sensible fashion rather than a tenement specific fashion because there was 3 tenements.

We are still waiting an outcome of that application... **if it is granted it means that we are fully in front of all tenement obligations on the QLD ATP.**

2:29 **The Santos farm in continues unabated** and the first round of seismic has been completed and it is interesting to note that in October Santos was fairly bullish in its own corporate briefings talking about **a multi TCF target that has been identified.**

3:15 **The drilling is expected to occur after the second round has been completed and the present indication is that that will be next year and obviously the first well is free carried. If it's a duster that's the end of the matter, if it isn't we have a 30% interest in any further developments.**

3:36 With the increase in oil price we are actively **evaluating the economics of Surprise production** so much so that we will be testing sometime in this half year the pressure build-up that has occurred following the shutdown so that we can fully work out the true economics of the Surprise oil field.... So that is where we are at on the exploration side.

4:03 Most of our exploration acreage other than 125 covered by the Santos joint venture... in the sense that all of the extant (Still existing, surviving) exploration permits. There are a number that are under application so that is the prime position where we are at on the exploration side.

4:32 **The Mereenie plant upgrade...** as you recall Mereenie had been producing at 50TJ/day in 2008.

There has been a fair amount of production of oil in particular that has occurred subsequent to that date **and presently there is about 25TJ/day being produced of gas of which 10 is reinjected for oil.**

The net result of that is that the well head pressures have declined over the period of time and so that by definition compression etc. will be required before we can restore it to at least where it was.

The objective that we have done and the long lead items that we have ordered will be to try and bring Mereenie production plant up to the capability of dealing with the spare capacity in the NGP.

5:38 Present indications are that the **NGP will be commissioned at the latest on the first of December**, they are well in front of schedule and I was told last year **that** if it didn't rain (Or flood) at Tennant Creek and Mount Isa in January that would have a material impact on the schedule positively... the good Lord did smile on us... its flooded in February... and so we were able to hold back the tide so to speak.

6:25 Let me just explain what I mean by the capacity of the NGP.

The Northern Gas Pipeline has been designed with a 12 inch line to be able to produce 90TJ/day of which 32tJ/day are contracted with PWC to supply the Incitec Pivot Duchess Phosphate mine outside Mount Isa.

By straight mathematical deduction that shows that there is 58TJ/day of spare capacity that has not been contracted out yet...

So clearly we are aiming to try and get, as a mixture of firm and interruptible to be in a position to supply that gas regardless of the outcome of the drilling campaign.

7:27 We have existing reserves at Mereenie, without the stairway, that can produce 5 to 7 years worth of NGP capacity.

So that's why we were confident enough to order the long lead time items but clearly the FEED (That is the total Front End Engineering and Design) will be completed next month and we will be taking FID (Final Investment Decision) in April and obviously that will be clearly influenced with the ease with which we can commercialise the gas which is code for the joint marketing decision on the ACCC.

So there are a number of things that are there that we are waiting for the ACCC decision.

8:23 The Mereenie Drilling is also subject to the ACCC decision... Mereenie itself, WM26 and WM 25 are in the stairway formation.

In the past, I remind everyone that over 36 air drilled vertical holes were drilled in Mereenie so not only do we have seismic and the normal controls, we actually have a whole host of data points....

28 of those wells recorded flows whilst drilling in the stairway were drilled through because they were aiming for oil and gas was a nuisance.

12 of those wells... they did do some degree of testing and they ranged from 1 to 7 million standard cubic feet a day.

9:24 The economics of the stairway are incredibly robust in the sense that we will be drilling right next door to existing field gathering systems.

If you take my comment first of all about compression being an issue at Mereenie the Stairway wells will be virginal wells... in other words it will be coming out at its initial pressure and will therefore be giving you a higher pressure output out of the wells than from the ones that have been depleted over the last 40 years... which in many ways will help in the pressure balance if we so need to.

10:00 In addition to that it is low Nitrogen and we need to get to a 10.9 Nitrogen spec. One of the Pacoota regimes is about 12% Nitrogen and the other zone is about 7% Nitrogen so having low Nitrogen from the Stairway of about 2% will mean that there is no Nitrogen processing required under any circumstances that could ever be envisaged.

The east Coast spec is a lower spec but part of the conditions of going through the NGP is that you must use their Nitrogen removal plant which is part of the tariff so that that therefore means that there is no utility in bringing it down to East Coast spec whilst the NGP remains the conduit to the East Coast Market.

So when people say what is economic... if you are drilling right next to the field gathering and tying it in as part of your drilling, any contribution for nitrogen is going to be well and truly worthwhile.

11:30 The major import of the program is to see instead of having 5 odd years of reserves we can have 10 or 15 years because the industrial customers are demanding 10 to 15 years and so we could offer that if we get the appropriate premium but in addition to that the NGP has a capability through compression of going to 160 TJ/Day and if we had the reserves we might be able to commercialise pretty rapidly from the stairway if it so required.

That is basically if you say 58 present spare there is another 70 that is easily... low hanging fruit on the NGP.

The import of this drilling program is to see whether there is further commercialisation regime that we can have because it is the lowest cost gas that you can possibly have when you have fully amortised paid back capital on the field gathering Etc. ... so you don't have large capital to bring it on and **you just have a processing plant upgrade that may be required.**

12:50 So it is an incredibly important drilling campaign at Mereenie in particular but it is not a do or die and will have no immediate impact on our cash flows.

It will be a period of time after that, particularly if the existing contracts that are being supplied out of Mereenie were to be supplied out of a reopened Palm Valley because those existing are going into the Northern Territory market and therefore are not constrained by the capacity at the NGP.

So therefore that makes the stairway pretty interesting... Palm valley also fairly interesting because it was running at 20 TJ/D at its peak and we could easily move 15 across for a number of years but then again if Palm Valley can produce more then we can do exactly the same as we are planning to do at Mereenie at Palm Valley but without being constrained by the Moonie to Palm Valley line which joins the Amadeus gas pipeline... so again you are just missing constraints.

14:26 The Last one is obviously... Palm Valley is going to be quite a complex well... the first time we have done a deviated horizontal well... it's not fair to call it a deviant well... it is going in the horizontal horizon but in a slope so that you can capture more than one zone as you go through your testing.

The objective is and I said earlier that we had 1 to 7 (Million Cubic Feet/Day?) on just a vertical when we were trying to kill the gas flows... it is pretty obvious with such a large range, and with some not showing any gas, it truly is a question of when do you intersect the natural fractures if you are only going down on dot points your chances of intersecting a natural fracture is quite low but if you go on the horizontal seeking them and there are natural fractures there the fact is that it is quite a high above sea level somewhere about 800 or 900 feet or meters... because there has been an uplift called the Macdonald ranges. By definition that means for such an old area that it has been broken up if you like by mother nature. It's a lot more complicated than that and Richard Hamilton is here if you really want to get into the complicated scenario but essentially there are natural fractures and we have seen incredibly variable flows both at Palm Valley and Mereenie depending on when you do intersect those fractures.

16:19 We have done a lot of fracture modelling and so we have a high of confidence that our modelling is correct and that's what we are applying what's called the rotary lie detector on our model to see whether we are absolutely right.

The chances of there being no gas at Mereenie are fairly remote obviously on there being no problems with the drilling touchwood.

The spud date is 6 to 8 weeks since we announced so that becomes somewhere between the ides of March (15 March) and Easter Sunday (1st April) and as they go further and further through the demobilisation we will be able to give a lot better timing of it.

The rig was stacked at Innamincka but is now being moved to Moomba or has been moved to Moomba, the prime reason for that if Northern Australia gets a cyclone that starts to fill up the channel country then there will be a number of weeks before that water flows down to Innamincka but it doesn't flow down to Moomba... so that puts you well in front of the curve there.

17:57 **How long will the drilling take?** The Palm Valley one is comparative but at this stage it is more like it is done in a dolphin in the sense that it is a shorter lateral but that is to give us some safety net on cost overruns at Mereenie and various other things.... **It's a work in progress we clearly have to make sure we live within our means** and we also have to make sure we can process the gas at that rate at Mereenie that we anticipated for the NGP.

18:42 **The Mereenie wells will take somewhere around about 35 to 40 days each and Ooraminna will be somewhere about 18 days or thereabouts because it is a plain vertical... so we are pretty confident it is going to be 90 to 120 days before we get the full suite of results.**

19:11 **Clearly the sequencing of the wells if ACCC approval comes in on time we will do WM26 or the Mereenie well first then Palm Valley and then Ooraminna so we move the rigs furthest from Alice Springs and then close to Alice springs and then the other side of Alice Springs and that follows the commercialisation regime because Mereenie is the one we commercialise first with the upgrade if the ACCC comes through.**

Clearly if there is a delay in that decision then we may have to change the sequencing.... And we will just see what that looks like when it comes about.

20:02 **All in all the company is in a very good place, last year the average price for wholesale was \$9.19/GJ and I have been advising everyone that I thought \$8-10 was the long term range... I think \$9.19 fits pretty closely within that range** the South Australians and Victorians know that there is not an oversupply of generation within those two states at the moment and **so there is a whole series of things that make us fairly comfortable about marketing.**

20:48 In the first instance worst case let's say we aren't able to get in the gas shortage long term contracts... and I am not conceding that one iota... and I think there is plenty of time and I think there is a lot of shortage and a lot of political

pressure at the AWU and McKell Institute was talking about this morning about how many manufacturers are going to close if they don't get long term contracts.

21:15 So once we have formal approval to market by the ACCC we are going into a shortage... but **lets just assume that we can't do that it does mean if it (NGP) starts on the 1st of December we can be putting intermittent or interruptible gas into the Summer electricity peaks while we try and finish the longer term contracts.... So summer is where the peaks are in gas demand these days so a peak in a gas shortage that also occurs at the winter peak the LNG is not the worst time in the world to start your production.** It is a very auspicious time to start.

22:02 So there is the pipeline reforms, **we have continued to have good outcomes on the pipeline reforms.**

The NT component of that is presently somewhat delayed by the fact that they are waiting for an ACCC review of the NT market before they make the final recommendations on the Amadeus Gas Pipeline and that is beyond our control and I feel quite comfortable that this company has been incredibly effective in influencing weather an interconnection occurs (NGP) and has been very effective in its advocacy for pipeline reforms and has probably decreased the...

22:58 ... **we are pretty close to being certain that there is at least a dollar reduction in the costs that were in the in the Scheme document at somewhere over \$5 it should be a lot short of that's per GJ which will fall to our bottom line....** So if you are sitting there you can see that yes we are not in control of the 8 or 9 governments in Australia, we are not a large company Etc. but I am not convinced that anyone else could or would have created a better outcome than we have on the tariff arrangements... so much so that the Fairfax press are calling APA's bete noire (Something which is particularly disliked)

24:00 Suffice to say, timing is everything as I am aware.. we do get a when's it going to happen type event but when you are dealing with the ACCC & Council of Australian Governments (COAG) patience does become a virtue and anyone who says they know exactly weather all of them are going to be herded into the right line is clearly lying or is an extremity good clairvoyant... 24:30**and I don't care what Hot Copper or Top Stocks says I have been around for too long** to believe the Governments are here to help you weather it is one government or nine... the nine governments just increase the degree of difficulty.

24:47 The Pepper Enquiry has made its interim recommendations on shale gas or unconventional shale and fracking... it is interesting that in a number of occasions that the Pepper Enquiry has cited Central Petroleum with approval.

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We actually feel that we have done the best we can to be a good NT citizen and to ensure that we do have the social licence that I do believe we have.

25:53 Over to Questions