

# Central Petroleum Limited

ABN 72 083 254 308

## Interim Report

31 December 2011



Drill rig in operation at Surprise-1 Re-entry Horizontal well on EP115 in Northern Territory

**Central Petroleum Limited**  
ABN 72 083 254 308

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**"Christmas Tree" Surprise-1 REH**

## Central Petroleum Limited

ABN 72 083 254 308

### Directors' report 31 December 2011

The Directors present their report on the consolidated entity consisting of Central Petroleum Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2011.

#### Directors

The names of the Directors' of the parent company in office during the half year and until the date of this report are:

Henry J Askin  
John P Heugh  
Richard W Faulk  
William J Dunmore  
Edmund R T Babington (Alternate Director for John P Heugh) – appointed 17 February 2012

Directors' have held office for the period and until the date of this report unless otherwise stated.

The Company does not pay directors' fees to Alternate Directors.

#### Principal Activity

The principal continuing activity of the consolidated entity ("the Group") during the period was the exploration for hydrocarbons, helium and coal.

#### Corporate Objectives

These can be summarised as:

1. Crude oil/condensate discovery and sales for early cash flow.
2. Gas/helium/condensate discovery for intermediate term cash flow from cryogenic helium export and local "mini" LNG (liquefied natural gas) production for the transport and local mining industry.
3. Longer term value adding to gas via GTL (gas to liquids) and/or LNG for domestic and export markets.
4. Long term monetisation of coal via mining, beneficiation and export, UCG (underground coal gasification) and value adding via GTL or other processes and possible mining and conversion to GTL products via CTL (coal to liquids).

It is planned to explore and develop the Group's coal assets in a joint venture structure with incoming joint venture partners managing and funding 100% of exploration and bankable feasibility studies to earn an interest and then for the Group to fund its participating interest at project funding stage. This approach if successful will allow the Group to focus on its core interests of oil, gas, condensate and helium discovery and monetisation. This would be assisted by farm outs and subsequent joint ventures from exploration all the way down the value adding chain to point of sale as appropriate. It is the Company's intention to maximise shareholder value by the sequential farm out of parcels of land.

#### Company Goals

The Company's immediate focus is to monetise the Surprise discovery as soon as possible and relevant data is being reviewed to facilitate detailed planning of subsequent drilling and 3D seismic. The Company's short term focus remains crude oil and condensate discovery and monetisation for potential early cash flow with future value adding for any gas discoveries via conversion to liquid transport fuels and/or LNG. Within the constraints of land access, sequence of grant and the inherent constraints of joint ventures the Company's focus has not changed. Early cash flow from any oil discoveries may initially be possible simply via trucking to a point of sale at Eromanga, or port facilities at either of Port Darwin or Port Bonython with later development potential lying in additional pipeline facilities and/or bulk liquids haulage on the rail system connecting central Australia with port facilities.

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**Directors' report**  
**31 December 2011 (continued)**

Early cash flow may also be possible from helium and "mini" LNG production and sales and this is regarded as an intrinsic part of the Company's overall strategy for relatively short term cash flow. In the longer term the Company is seeking to build gas resources to a threshold point where value-adding processes via the conversion of gas into liquid transport fuels (GTL) can be brought into play.

Apart from conventional oil and gas reservoir potential, the Company has significant areas prospective in unconventionally reservoired oil and gas potential in the Company's acreage in the Amadeus Basin and the Southern Georgina Basin. 16 billion barrels of oil equivalent at "mean" prospective recoverable resource level have been independently estimated.

Recent developments in the worldwide coal sector and coal discoveries by the Company in its vast Pedirka Basin mineral leases have led to interest from various groups in the Company's potential coal resources with monetisation pathways being evaluated including coal mining and beneficiation for export, coal to liquids (CTL) and underground coal gasification (UCG) with gas to liquids value adding to any gas produced such as gas to liquids (GTL) processing.

The Company holds a 100% working interest in all of its permits and application areas other than the Simpson, Pellinor, and Bejah prospect blocks within EP97 where the Company has a farm-in agreement with Rawson Resources Limited, and the Mt Kitty and Magee prospect blocks within EP125 and EP82 respectively which are the subject of a farm-out to Oil and Gas Exploration Limited. The Company continues to seek potential joint venture participants with the financial capacity and the will to explore the vast prospective acreage at its disposal and is focussing its efforts on large companies and majors. Interest in the Company's acreage which is believed to contain potentially very large commercial quantities of conventionally and unconventionally reservoired hydrocarbons, helium and coal continues. Prospective exploration acreage values in the energy industry, particularly in the overlooked central Australian basin areas are escalating rapidly so the Company is determined to extract maximum value for its shareholders in any deal being contemplated.

Recent valuations of the Company's exploration potential underscore how undervalued the Company's securities are. Bakers Group have presented a lowside valuation of the Pedirka Basin coal UCG potential of \$2 billion, a recent share target price based on the Group's short term (one year) drilling plans of \$0.32 per Share and Mulcon Pty Ltd have valued the Group's unconventional potential at \$412 million for the upstream component and \$5 billion for the downstream component based solely on unconventional resource potential in a report announced on 1 September 2011. Additional Bakers Group valuation has quoted a medium to long term diluted share trading target price of \$1.75 to \$2.16 per share with a short term share trading price target price of \$0.32.

## **Review of Operations**

The Company's focus for the half year was twofold:

- preparing for and executing the re-entry and drilling and testing of the Surprise-1 RE H ("S1REH") well in EP115 [Central Petroleum Limited 100%]; and
- continuing with the interpretation of seismic and other data to develop exploration plays throughout the Company's acreage and to establish optimal drilling locations on the Simpson East, Madigan and Mt Kitty structures.

### *Surprise-1 re-entry and horizontal drilling*

The Surprise-1 well which had been drilled in December 2010 was re-entered on 18 November 2011 using Hunt Rig #3 and on 29 November 2011 the well had reached a depth of 2,672 metres ("m") from the rotating Kelly bushing ("RKB") in the Pacoota Sandstone.

Drilling began following re-entry of new Lower Stairway Formation at the base of the previously cored zone. Fair to good oil shows accompanied by background gas up to a 75 unit peak with high "heavy" gas components were reported through the base of the Lower Stairway Sandstone which continued from the 9m core previously cut in December 2010.

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### Directors' report 31 December 2011 (continued)

Including the results of the core cut previously, it is apparent that at the base of the Lower Stairway Sandstone, the well encountered approximately 28m True Vertical Depth of continuous fair to good oil shows. Inclusive of discontinuous oil shows 68m True Vertical Depth of oil shows have been encountered. The lithologies in the additional 11m drilled of these oil shows has been described on the wellsite as being fine to coarse grained with fair visual porosity and abundant yellow-gold natural fluorescence and strong yellow solvent cut fluorescence.

The results of electric log analysis, coring and visual observations of cuttings and mud flow indicated a prospective oil flow from the well so the Company proceeded to drill a 230m (approximate) lateral which it then tested. A number of dip changes were encountered during the horizontal drilling but the drill bit remained in sandstone throughout and with continuous oil shows. Of the 230m section drilled just 10m (approximate) rated less than good to excellent shows.

The first flow rates from testing were released to the market on 11 January 2012 with a maximum sustained flow rate of 300 barrels of oil per day over a four hour test period, with a 7.5% drilling fluid cut. The quality was API gravity averaging 40 Degrees-light sweet crude and low gas oil ratios.

On 13 January 2012 the Company advised that further initial flow testing had finished after recording a sustained flow rate via a 32/64" choke of 380 barrels per day with a low 4.4% drilling fluid and/or water cut. The final PBU (Pressure Build Up) was 523 PSI.

Following the completion of initial flow testing at the Surprise-1 well the Hunt Rig #3 was released from the well on 13 January 2012 and on 17 February 2012 the Company gave notice that it would not be exercising the option to retain the rig.

In the meantime Central is planning an Extended Production Test (EPT) which is anticipated to commence in April/May 2012 and a 3D seismic programme anticipated to commence in March/April 2012. The Company is evaluating alternative scenarios for the lifting, transportation and sale of the oil produced during the EPT. Work is underway to obtain the necessary permits and regulatory approvals and to negotiate a sales contract. It is possible that further improvements in flow rate may be recorded during the EPT or alternatively the flow rate last recorded may decline. Different choke sizes will be used in an effort to optimise production volumes so that flow will be at or less than the inflow of oil from sediments surrounding the well bore.

All relevant geological, petrophysical and flow testing data gathered from the drilling of recent re-entry well, including its horizontal leg, as all available seismic data is being prepared for comprehensive analysis to better define the reservoir potential and design the most appropriate EPT.

Central was pleased to announce that the Surprise-1 REH well produced the first significant oil flow from an onshore discovery well in the Northern Territory in almost fifty years since the discovery of the Mereenie oil and gas field, and also the well is believed to be the first ever horizontal well completion producing oil onshore in Australia. The Company believes this success at Surprise has materially enhanced the prospectivity of Central's extensive acreage in the western Amadeus Basin.

#### **Data Interpretation**

The Company continued with interpretation of the seismic data acquired from its recent seismic acquisition programme as well as interpretation of reprocessed seismic of earlier vintage to firm up drillable prospects. The Company also completed further technical reports for use in planning for its forward exploration campaigns in conventional and unconventional oil and gas horizons.

**Directors' report**  
**31 December 2011 (continued)**

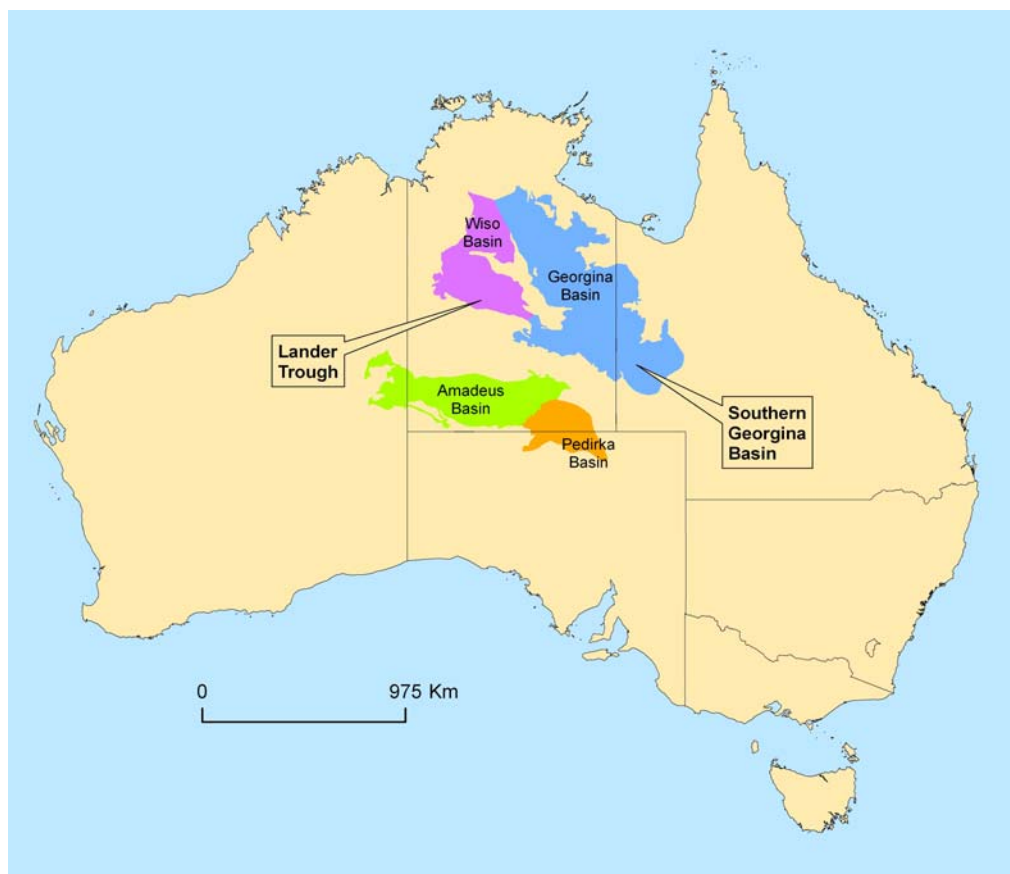
**Studies and Reports**

*Additional Unconventional Play Exploration Targets*

On 1 December 2011 the Company released an internal technical report detailing the identification of potentially up to 65 million acres (260,000 km<sup>2</sup>) of unconventional play exploration targets in its acreage in the Southern Georgina and Amadeus Basins, over and above the 11 million acres detailed by DSWPET Pty Ltd in an earlier report.

These additional unconventional play exploration targets in the Palaeozoic and Pre-Cambrian throughout the Lander Trough of the Wiso Basin, the Amadeus Basin and Pedirka/Eromanga Basins are represented by known mature source rocks in a series of superimposed horizons which have been drilled and many of which have been logged, sampled and analysed.

Although the commercial exploitation of most unconventional exploration play targets such as those in North America is restricted to a modest percentage (20-40%) of the total play area, the exploration targets described in the technical note may represent important additional horizons for exploration going forward for the Company.



These results are preliminary and based on sparse drilling and sampling from historical and recent exploration over a 50 year period. Significantly more exploration, sampling and analyses are required before any resource figures may result. The observations in the accompanying Technical note are subject to review as more data comes to hand.

**Farm-ins /Farm-outs**

There were no farm in or farm out deals completed in the half year but the Company is in active discussion with a number of significant potential partners.

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**Directors' report**  
**31 December 2011 (continued)**

**Legal Action**

During the half year the Company continued with the preparation work for its arbitration proceedings against Century Energy Services Pty Ltd and MB Century Drilling Pty Ltd in the matter of the unplanned incident which occurred during the drilling of Surprise-1 in EP 115 whereby the monkey board and 129 stands of racked drill pipe twisted around the rig mast by thirty degrees whilst the wireline sheaves were being repositioned. This incident resulted in the Company having to necessarily terminate the drilling contract with Century Energy Services Pty Ltd for performance related issues. On latest estimates, it is planned that the arbitration hearing will take place in July 2012. Prior to this, a mediation process has been planned in early April 2012.

**Senior Executive Appointments in the Half Year**

In August 2011 Mr Trevor Shortt joined the Company as Exploration Manager.

Mr Shortt's experience includes a focus on unconventional resources. His experience in shale gas, shale oil and tight reservoirs gained in such plays as the Bakken oil shales in the Williston Basin is potentially of immense value to the Company. He has previously worked with various companies including EnCana Corporation, Home Oil, Renaissance Energy, Chevron, Cimmaron Petroleum and Bengal Energy Ltd. In addition to North America his experience includes working in Argentina, India, the Timor Sea and the Cooper Basin.

In November 2011 the Company announced that Mr Dalton Hallgren is to be appointed Chief Operating Officer, effective on visa requirements being met.

Mr Hallgren is a well qualified manager and drilling engineer, having worked extensively, inter alia, in the Marcellus, Bakken, Haynesville and Barnett shale gas and shale oil plays in the USA. He had managed the drilling of numerous horizontal multi-stage fraced wells in such plays for companies such as Halliburton Project Management, Burlington Resources, Headington Oil, St Mary, Peak, Encana, Hess, Marathon and Conoco. He also saw military service in special operations with the US Army, retiring with the rank of Captain and has extensive experience with remote desert operations both in this role as well as in oilfield operations. He has also worked extensively on international well control assignments as a specialised well control engineer with Boots and Coots.

**Forward Exploration and Development Plans**

*Oil and Gas Interests*

The Company is examining its options for the development of the Surprise structure. In addition to the extended production testing of the discovery well, decisions on further drilling and running a 3D seismic programme (in addition to that for the Surprise structure) are under consideration.

As well as planning for the development of the Surprise structure, the Company is actively reviewing plans for seismic acquisition and further drilling of a number of play types. Included amongst the play types are the Surprise-Johnstone and the North-West Mereenie areas in EP115 for both conventional and unconventional oil accumulations, reefal carbonate plays in the Pedirka Basin and the conventional and unconventional oil and gas potential within the Company's application areas in the Southern Georgina Basin. More specifically planning is ongoing for the drilling of either the Madigan, Simpson East prospects and the Pellinor Reef plays in the Pedirka Basin, and the Mt Kitty prospect in the Amadeus Basin. The Mt Kitty prospect is anticipated to host condensate as well as helium, a valuable gas originally discovered in the sub-salt Magee prospect in the Amadeus Basin in 1992 (Magee-1).

In addition to a full evaluation of the results from the S1REH testing programme, Central will also be assessing the unconventional shale oil/gas potential of the well.

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**Directors' report**  
**31 December 2011 (continued)**

*Mineral / Coal Interests*

As previously reported the Company has commenced a global search for Pedirka Basin UCG/GTL Commercialisation Partners. That search is ongoing.

The Company has partnered with Allied Resource Partners Pty Ltd ("ARP") to commercialise part of the Company's permit and application areas in the Pedirka Basin covering coal deposits. ARP will instigate and oversee the global search for funding and technology partners for this part of the Company's coal assets located in the Northern Territory and South Australia.

A rigorously prescriptive Request for Proposal ("RFP") process is being used to bind commitments to the Project from carefully selected major domestic and global petroleum and mining companies, sovereign funds, energy funds and investment funds. Compliant RFP respondents will be required to detail their plans to explore for coal and potentially complete a Bankable Feasibility Study with Stage 1 output of a minimum of 60,000 barrels per day from the yet to be drilled minimum JORC compliant resource of 4 billion tonnes of accessible coal and their plans to commence construction of Stage 1 of the Project within 5 year. The respondents will also be required to detail their incremental expansion strategies to a potential 3 million barrels per day output.

The foregoing effort is predicated upon significant expenditure, exploration success, technical due diligence and other attendant requirements such as State and Federal support and legislative clarification. While the tenements are highly prospective with coal intersections up to 35 metres in thickness, they remain sparsely drilled hence the exploration phase is critical to the long term success of the proposal.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

This report is made in accordance with a resolution of directors.



JP Heugh – Managing Director  
Perth, Western Australia  
14 March 2012



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**Directors' report**  
**31 December 2011 (continued)**

**Competent Persons Statement**

**Al Maynard & Associates**

Information in this announcement or attached report or notification which may relate to Exploration Results of coal tonnages in the Pedirka Basin is based on information compiled by Mr Allen Maynard, who is a Member of the Australian Institute of Geosciences ("AIG") and a Corporate Member of the Australasian Institute of Mining & Metallurgy ("AusIMM") and an independent consultant to the Company. Mr Maynard is the principal of Al Maynard & Associates Pty Ltd and has over 30 years of exploration and mining experience in a variety of mineral deposit styles. Mr Maynard has sufficient experience which is relevant to the styles of mineralisation and types of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Maynard consents to inclusion in this Report or announcement of the matters based on his information in the form and context in which it appears.

**Mulready Consulting Services**

The Mulready Consulting Services Report on UCG and CSG which may be referred to in this report or announcement or notification was prepared by their Associate Mr Roger Meaney, who holds a BSc (Hons) from Latrobe University and has over 30 years experience in the petroleum exploration and production industry with 8 years experience in the field of Coal Seam Gas.

**General Legal Disclaimer**

Potential volumetrics of gas or oil may be categorised as Undiscovered Gas or Oil Initially In Place (UGIIP or UOIIP) or Prospective Recoverable Oil or Gas in accordance with AAPG/SPE guidelines. Since oil via Gas to Liquids Processes (GTL) volumetrics may be derived from gas estimates the corresponding categorisation applies.

As new information comes to hand from data processing and new drilling and seismic information, preliminary results may be modified. Resources estimates, assessments of exploration results and other opinions expressed by the Company in this announcement or report have not been reviewed by any relevant joint venture partners, therefore those resource estimates, assessments of exploration results and opinions represent the views of the Company only. Exploration programmes which may be referred to in this announcement or report may not have been approved by relevant Joint Venture partners in whole or in part and accordingly constitute a proposal only unless and until approved.

This document may contain forward-looking statements. Forward looking statements are only predictions and are subject to risks, uncertainties and assumptions which are outside the control of Central. These risks, uncertainties and assumptions include (but are not limited to) commodity prices, currency fluctuations, economic and financial market conditions in various countries and regions, environmental risks and legislative, fiscal or regulatory developments, political risks, project delay or advancement, approvals and cost estimates. Actual values, results or events may be materially different to those expressed or implied in this document. Given these uncertainties, readers are cautioned not to place reliance on forward looking statements. Any forward looking statement in this document is valid only at the date of issue of this document. Subject to any continuing obligations under applicable law and the ASX Listing Rules, or any other Listing Rules or Financial Regulators' rules, Central, its agents, directors, officers, employees, advisors and consultants do not undertake any obligation to update or revise any information or any of the forward looking statements in this document if events, conditions or circumstances change or that unexpected occurrences happen to affect such a statement. Sentences and phrases are forward looking statements when they include any tense from present to future or similar inflection words, such as (but not limited to) "believe," "estimate," "anticipate," "plan," "predict," "may," "hope," "can," "will," "should," "expect," "intend," "is designed to," "with the intent," "potential," the negative of these words or such other variations thereon or comparable terminology, may indicate forward looking statements.

**NOTICE:** The participating interests of the relevant parties in the respective petroleum permits and permit applications are:

- EP-82 (excluding the Central subsidiary Helium Australia Pty Ltd ("HEA") and Oil & Gas Exploration Limited ("OGE") (previously He Nuclear Ltd) Magee Prospect Block) - HEA 100%
- Magee Prospect Block, portion of EP 82 – HEA 84.66% and OGE 15.34%.
- EP-93, EP-105, EP-106, EP-107, EPA-92, EPA-129, EPA-130, EPA-131, EPA-132, EPA-133, EPA-137, EPA-147, EPA-149, EPA-152, EPA-160, ATP-909, ATP-911, ATP-912 and PELA-77 - Central subsidiary Merlin Energy Pty Ltd 100% ("MEE").
- The Simpson, Bejah and Pellinor Prospect Block portions within EP-97 – MEE 80% and Rawson Resources Ltd 20%.
- EP-125 (excluding the Central subsidiary Ordiv Petroleum Pty Ltd ("ORP") and OGE Mt Kitty Prospect Block) and EPA-124 – ORP 100%.
- Mt Kitty Prospect Block, portion of EP 125 - ORP 75.41% and OGE 24.59%.
- EP-112, EP-115, EP-118, EPA-111 and EPA-120 - Central subsidiary Frontier Oil & Gas Pty Ltd 100%.
- PEPA 18/08-9, PEPA 17/08-9 and PEPA 16/08-9 - Central subsidiary Merlin West Pty Ltd 100%.



## Auditor's Independence Declaration

As lead auditor for the review of Central Petroleum Limited for the half year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Central Petroleum Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'W P R Meston', is written over a faint, light blue circular stamp or watermark.

William P R Meston  
Partner  
PricewaterhouseCoopers

Perth  
14 March 2012

**Central Petroleum Limited**  
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**Consolidated statement of comprehensive income**  
**For the half-year ended 31 December 2011**

	Notes	Half-year 2011	Half-year 2010
		\$	\$
<b>Continuing Operations</b>			
Other income	4	331,536	650,192
Bad and doubtful debts		-	(394,709)
Finance costs		(6,391)	(1)
Employee benefits and associated cost		(1,517,413)	(1,267,082)
Exploration expenditure		(9,503,552)	(28,717,838)
Depreciation and amortisation		(111,383)	(130,332)
General and administrative expenses		(1,515,082)	(884,228)
Share based employment benefits	5,6	(632,654)	(92,300)
<b>Loss before income tax</b>		<b>(12,954,939)</b>	<b>(30,836,298)</b>
Income tax expense		-	-
<b>Loss for the half-year</b>		<b>(12,954,939)</b>	<b>(30,836,298)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the half-year</b>		<b>(12,954,939)</b>	<b>(30,836,298)</b>
<b>Attributable to shareholders of Central Petroleum Limited</b>		<b>(12,954,939)</b>	<b>(30,836,298)</b>
<b><u>Earnings per share</u></b>			
Basic and diluted loss per share (cents)		(1.25)	(3.26)

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Central Petroleum Limited**  
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**Consolidated balance sheet**  
**As at 31 December 2011**

	Notes	31 December 2011	30 June 2011
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		7,690,963	9,463,949
Trade and other receivables		1,176,502	3,468,537
Inventory		801,747	853,995
<b>Total current assets</b>		<b>9,669,212</b>	<b>13,786,481</b>
<b>Non-current assets</b>			
Property, plant and equipment	3	970,218	828,358
Exploration assets		10,488,500	10,488,500
Intangible assets		60,656	72,406
Other financial assets		1,453,546	2,412,746
<b>Total non-current assets</b>		<b>12,972,920</b>	<b>13,802,010</b>
<b>Total assets</b>		<b>22,642,132</b>	<b>27,588,491</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		4,074,843	1,257,329
Provisions		387,174	386,128
<b>Total current liabilities</b>		<b>4,462,017</b>	<b>1,643,457</b>
<b>Non-current liabilities</b>			
Provisions		63,150	49,862
<b>Total non-current liabilities</b>		<b>63,150</b>	<b>49,862</b>
<b>Total liabilities</b>		<b>4,525,167</b>	<b>1,693,319</b>
<b>Net assets</b>		<b>18,116,965</b>	<b>25,895,172</b>
<b>EQUITY</b>			
Contributed equity	5	103,649,626	99,105,548
Reserves	5	7,525,754	6,893,100
Accumulated losses		(93,058,415)	(80,103,476)
<b>Total equity</b>		<b>18,116,965</b>	<b>25,895,172</b>

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

**Central Petroleum Limited**  
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**Consolidated statement of changes in equity**  
**For the half-year ended 31 December 2011**

	Notes	Attributable to owners of Central Petroleum Limited			Total \$
		Contributed Equity \$	Option Reserve \$	Accumulated Losses \$	
<b>Balance at 1 July 2010</b>		<b>93,209,470</b>	<b>6,763,432</b>	<b>(43,459,953)</b>	<b>56,512,949</b>
Loss for the half-year		-	-	(30,836,298)	(30,836,298)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the half-year		-	-	(30,836,298)	(30,836,298)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs		6,003,976	-	-	6,003,976
Share based payments		-	92,300	-	92,300
		<u>6,003,976</u>	<u>92,300</u>	<u>-</u>	<u>6,096,276</u>
<b>Balance at 31 December 2010</b>		<b>99,213,446</b>	<b>6,855,732</b>	<b>(74,296,251)</b>	<b>31,772,927</b>
<b>Balance at 1 July 2011</b>		<b>99,105,548</b>	<b>6,893,100</b>	<b>(80,103,476)</b>	<b>25,895,172</b>
Loss for the half-year		-	-	(12,954,939)	(12,954,939)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the half-year		-	-	(12,954,939)	(12,954,939)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	5	4,544,078	-	-	4,544,078
Share based payments	5	-	632,654	-	632,654
		<u>4,544,078</u>	<u>632,654</u>	<u>-</u>	<u>5,176,732</u>
<b>Balance at 31 December 2011</b>		<b>103,649,626</b>	<b>7,525,754</b>	<b>(93,058,415)</b>	<b>18,116,965</b>

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

**Central Petroleum Limited**  
**ABN 72 083 254 308**

**Consolidated statement of cash flows**  
**For the half-year ended 31 December 2011**

	Notes	Half-year 2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Interest received		303,902	584,450
GST refunds received		2,789,058	-
Payments to suppliers and employees		<u>(10,003,077)</u>	<u>(26,321,117)</u>
Net cash outflow from operating activities		<u>(6,910,117)</u>	<u>(25,736,667)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(366,147)	(84,704)
Redemption/(lodgement) of interest bearing security bonds		959,200	(29,854)
Net cash inflow/(outflow) from investing activities		<u>593,053</u>	<u>(114,558)</u>
<b>Cash flow from financing activities</b>			
Proceeds from contributed equity		5,005,960	6,451,281
Payments for capital raising costs		<u>(461,882)</u>	<u>(447,305)</u>
Net cash inflow from financing activities		<u>4,544,078</u>	<u>6,003,976</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,772,986)</b>	<b>(19,847,249)</b>
<b>Cash and cash equivalents at the beginning of the half-year</b>		<b>9,463,949</b>	<b>37,529,579</b>
<b>Cash and cash equivalents at the end of the half-year</b>		<b><u>7,690,963</u></b>	<b><u>17,682,330</u></b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**Central Petroleum Limited**  
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**Notes to the consolidated financial statements**  
**For the half-year ended 31 December 2011**

**1. Basis of Preparation of Half-year Report**

This general purpose interim financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Central Petroleum Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Going Concern

The consolidated financial statements of the Group have been prepared on a going concern basis, which contemplates continuity of business activities and realisation of assets and the settlement of liabilities in the ordinary course of business. For the half-year ended 31 December 2011 the Group incurred a loss before tax of \$12,954,939 and a cash outflow from operating activities of \$6,910,117.

As at 31 December 2011 the Group had cash assets amounting to \$7,690,963. Minimum cash requirements for the next year, based on the current level of staffing and overheads, are expected to be in the vicinity of \$5.6 million. Accordingly the financial statements have been prepared on a going concern basis.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due has been enhanced by the capital raising activities undertaken since the end of the half-year. The Company completed a share placement in February 2012 raising approximately \$2.8 million and also completed a Share Purchase Plan raising a further \$7.2 million, both before costs.

Whilst the Group has exploration plans and commitments in excess of cash reserves, in the petroleum industry it is common practice for entities to farm-out, transfer or sell a portion of their rights to third parties or relinquish them altogether and, as a result, obligations may be significantly reduced or extinguished. In addition to continued funding from existing investors, the Company's proposed listing on the Toronto Stock Exchange Venture Exchange is expected to provide an additional source of funds for future exploration activities.

The directors, therefore, are of the opinion that no asset is likely to be realised for an amount less than the amount it is recorded in the financial report at 31 December 2011. Accordingly no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts and classification of liabilities that might be necessary should the Company and the Group not continue as a going concern.

**Notes to the consolidated financial statements**  
**For the half-year ended 31 December 2011 (continued)**

**1. Basis of Preparation of Half-year Report (continued)**

(b) New and Amended Standards Adopted by the Group

In the current period, the Group has adopted all new and revised Standards and Interpretations issued by the International Accounting Standards Board that are relevant to its operations and effective for reporting periods beginning on or after 1 July 2011. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies.

(c) Early Adoption of Standards

The Group did not early adopt any Australian Accounting Standards that are not yet mandatory.

**2. Segment information**

**Description of Segments**

*Operating Segments*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Management has considered the operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions. As the consolidated entity is in the exploration phase of operations, the board considers the business as a whole, and makes decisions on the allocation of resources based on its strategic objectives.

The operations of the consolidated entity involve a single industry segment being that of exploration for hydrocarbons, helium, and coal/coal seam gas. The consolidated entity's operations are wholly in one geographical location being Australia.

**3. Property, Plant and Equipment**

During the half-year ended 31 December 2011, the group acquired assets at a cost of \$298,438 (2010: \$84,704).

The majority of the acquired assets (98%) represent Plant and Equipment.



**Central Petroleum Limited**  
ABN 72 083 254 308

**Notes to the consolidated financial statements**  
**For the half-year ended 31 December 2011 (continued)**

	Half-Year	
	31 December 2011	31 December 2010
	\$	\$
<b>4. Other Income</b>		
Interest revenue	331,536	650,192
	<b>331,536</b>	<b>650,192</b>

	Half-Year	
	31 December 2011	30 June 2011
	\$	\$
<b>5. Contributed Equity and Reserves</b>		
<b>Share Capital</b>		
1,073,304,842 ordinary shares (30 June 2011: 982,298,842 ordinary shares)	103,649,626	99,105,548
<b>Share Options Reserve</b>		
340,501,191 share options (30 June 2011: 311,433,857 Share options)	7,525,754	6,893,100

	Half Year		Half Year	
	31 December 2011	31 December 2011	31 December 2010	31 December 2010
	\$	No. of securities	\$	No. of securities
<b>Movements in Ordinary Shares on Issue During the Half-year:</b>				
Balance at the beginning of the half-year	99,105,548	982,298,842	93,209,470	907,289,333
Issue of ordinary shares	5,005,000	91,000,000	6,450,000	75,000,000
Exercise of share options	960	6,000	1,281	9,509
Transaction costs	(461,882)	-	(447,305)	-
		<b>1,073,304,842</b>		
<b>Balance at the end of the half-year</b>	<b>103,649,626</b>	<b>2</b>	<b>99,213,446</b>	<b>982,298,842</b>

**Central Petroleum Limited**  
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**Notes to the consolidated financial statements**  
**For the half-year ended 31 December 2011 (continued)**

**5. Contributed Equity and Reserves Share Capital**  
**(continued)**

	Half Year		Half Year	
	31 December 2011	31 December 2011	31 December 2010	31 December 2010
	Share options Reserve \$	No. of securities	Share options Reserve \$	No. of securities
<b><i>Movements in Share Options on Issue</i></b>				
<b><i>During the Half-year:</i></b>				
Balance at the beginning of the half-year	<b>6,893,100</b>	<b>311,433,857</b>	<b>6,763,432</b>	<b>320,593,366</b>
Share based payments:				
31/03/2014 options exercisable at \$0.20	-	-	45,569	-
31/05/2015 options exercisable at \$0.122	10,433	-	28,899	-
31/10/2015 options exercisable at \$0.11	2,077	-	17,832	800,000
12/05/2016 options exercisable at \$0.12	2,143	-	-	-
20/07/2016 options exercisable at \$0.11	83,858	7,646,665	-	-
19/08/2016 options exercisable at \$0.115	68,624	2,000,000	-	-
30/08/2016 options exercisable at \$0.115	86,140	4,000,000	-	-
15/11/2016 options exercisable at \$0.095	332,946	12,993,335	-	-
30/11/2016 options exercisable at \$0.095	46,433	6,000,000	-	-
Expiry of options exercisable at \$0.30	-	-	-	(1,800,000)
Expiry of options exercisable at \$0.33	-	(200,000)	-	-
Expiry of options exercisable at \$0.30	-	(500,000)	-	-
Expiry of options exercisable at \$0.25	-	(666,666)	-	-
Cancellation of options exercisable at \$0.11	-	(2,200,000)	-	-
Exercise of options at \$0.16	-	-	-	(9,509)
Exercise of options at \$0.16	-	(6,000)	-	-
<b>Balance at the end of the half-year</b>	<b>7,525,754</b>	<b>340,501,191</b>	<b>6,855,732</b>	<b>319,583,857</b>

**6. Share Based Employment Benefits**

The company issues options to employees under an Employee Incentive Share Option Scheme. The fair value of the options granted is estimated at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted.

**Central Petroleum Limited**  
**ABN 72 083 254 308**

**Notes to the consolidated financial statements**  
**For the half-year ended 31 December 2011 (continued)**

**6. Share Based Employment Benefits (continued)**

*Half-year ended 31 December 2011*

During the period under consideration 32,640,000 share options were granted to employees under the Employee Incentive Share Option Scheme as follows;

Share options granted	Exercise Price	Expiry date
7,646,665	\$0.110	20 July 2016
2,000,000	\$0.115	19 August 2016
4,000,000	\$0.115	30 August 2016
12,993,335	\$0.095	15 November 2016
6,000,000	\$0.095	30 November 2016

Share based employment benefits also includes the vesting portions for options granted in prior periods.

*Half-year ended 31 December 2010*

800,000 share options were granted to employees under the Employee Incentive Share Option Scheme. The exercise price is \$0.11 with an expiry date of 31 October 2015. Share based employment benefits also includes the vesting portions for options granted in prior periods.

**7. Contingencies and Commitments**

(a) Exploration Contingencies and Commitments

The consolidated entity has contingent exploration expenditure commitments on various permit areas held in Australia.

	<b>Consolidated</b>	
	<b>31 December 2011</b>	<b>30 June 2011</b>
	<b>\$</b>	<b>\$</b>
Due not later than 1 year	13,806,000	11,634,000
Due later than 1 year but less than 5 years	50,656,000	57,041,000
Due later than 5 years	5,000	-
<b>Total</b>	<b><u>64,467,000</u></b>	<b><u>68,675,000</u></b>

In the petroleum industry it is common practice for entities to farm-out, transfer or sell a portion of their rights to third parties and, as a result, obligations may be reduced or extinguished.

(b) Operating Lease Commitments

The Group has non-cancellable operating leases for office premises in Perth expiring on 28 February 2015 and 30 September 2013 and in Alice Springs expiring on 30 June 2012.

	<b>Consolidated</b>	
	<b>31 December 2011</b>	<b>30 June 2011</b>
	<b>\$</b>	<b>\$</b>
Due not later than 1 year	411,270	384,494
Due later than 1 year but less than 5 years	562,434	185,364
<b>Total</b>	<b><u>973,704</u></b>	<b><u>569,858</u></b>

**Notes to the consolidated financial statements**  
**For the half-year ended 31 December 2011 (continued)**

**7. Contingencies and Commitments (continued)**

(c) Contingent Liabilities

The consolidated entity had contingent liabilities at 31 December 2011 in respect of certain joint venture payments.

As partial consideration under the terms of the purchase agreement for EPs 105, 106 and 107, there is a requirement to pay the vendor the sum of \$1,000,000 (2010: \$1,000,000) within twelve months following the commencement of any future commercial production from the permits.

(d) Contingent Assets

On 31 March 2011, the Company announced it had initiated legal proceedings against Century Energy Services Pty Ltd to protect its interests.

The proceedings follow an unplanned incident which occurred during the drilling of Surprise-1 in EP 115 whereby the monkey board and 129 stands of racked drill pipe twisted around the rig mast by thirty degrees whilst the wireline sheaves were being repositioned. This incident resulted in the Company having to necessarily terminate the drilling contract with Century Energy Services Pty Ltd for performance related issues.

The directors believe a favourable outcome is probable. However, the contingent asset has not been recognised as a receivable at 31 December 2011 as receipt of the amount is dependent on the outcome of the proceedings. On latest estimates, it is planned that the arbitration hearing will take place in July 2012. Prior to this, a mediation process has been planned in early April 2012.

There were no contingent assets at 30 June 2010.

**8. Subsequent Events**

The Company completed the issue of the Share Purchase Plan shares to existing shareholders on 6 February 2012. A total of 130,071,423 shares were placed at 5.5 cents per share raising additional capital of \$7,153,900 before costs. The Company concurrently completed a share placement on 6 February 2012, also at 5.5 cents per share. A total of 50 million shares were placed raising additional capital of \$2,750,000 before costs.

In January 2012 the Company announced the Surprise-1 REH well produced the first significant oil flow from an onshore discovery well in the Northern Territory in almost fifty years since the discovery of the Mereenie oil and gas field, and also the well is believed to be the first ever horizontal well completion producing oil onshore in Australia.

On 17 February 2012 the Company announced that the drilling of an appraisal well over the Surprise structure has been deferred pending the outcome of the planned Extended Production Test of the Surprise-1 RE H well and acquisition of 3D seismic over the Surprise structure. Accordingly the Company has not exercised the option to retain Hunt Rig #3.

On 1 March 2012 the Company completed a 3 year extension to a non-cancellable operating lease for office premises in Perth. The new lease will expire on 28 February 2015

Other than the matters discussed above, there has not arisen in the interval between the end of the financial half year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial periods.

**Central Petroleum Limited**  
ABN 72 083 254 308

**Directors' declaration**  
**For the half-year ended 31 December 2011**

In the directors' opinion:

- (a) The financial statements and notes set out on pages 11 to 20 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that Central Petroleum Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

A handwritten signature in dark ink, appearing to read 'JP Heugh', is written over a faint, light-colored rectangular stamp or watermark.

JP Heugh – Managing Director  
Perth, Western Australia  
14 March 2012



## **Independent auditor's review report to the members of Central Petroleum Limited**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Central Petroleum Limited, which comprises the balance sheet as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Central Petroleum Limited Group (the consolidated entity). The consolidated entity comprises both Central Petroleum Limited (the company) and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Central Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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## **Independent auditor's review report to the members of Central Petroleum Limited (cont'd)**

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Central Petroleum Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', is written over the printed name.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'William P R Meston', is written over the printed name.

William P R Meston  
Partner

Perth  
14 March 2012

**Central Petroleum Limited**  
ABN 72 083 254 308

**Corporate directory**

**Directors**

Henry J Askin BSc (Hons) PhD, Non-executive Chairman  
John P Heugh BSc (Hons), Managing Director  
Richard W Faull BCom CPA, Non-executive Director  
William J Dunmore BSc MSc, Non-executive Director  
Edmund R T Babington (Alternate Director for John P Heugh) – appointed 17 February 2012

**Company Secretaries**

Daniel C M White LLB, BCom, LLM  
Bruce W Elsholz, BCom CA

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**Auditors**

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**Share Registrar**

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