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Central Petroleum Limited

SECOND SUPPLEMENTARY SCHEME BOOKLET

This Second Supplementary Scheme Booklet supplements disclosure in the Scheme Booklet dated 28 April 2017 (**Scheme Booklet**) and the Supplementary Scheme Booklet dated 31 May 2017 (**First Supplementary Scheme Booklet**) relating to the proposed acquisition by Macquarie MPVD Pty Limited (ACN 616 486 983) (**Macquarie MPVD**) of all of the ordinary shares in Central Petroleum Limited (ACN 083 254 308) (**Central**) (other than the Excluded Shares) through a scheme of arrangement between Central Shareholders (other than the Excluded Shareholders) and Central.

The Central Board continues to unanimously recommend that you

VOTE IN FAVOUR

of the Scheme Resolution in the absence of a Superior Proposal.

If you have any questions in relation to this Second Supplementary Scheme Booklet, you should call the Central Shareholder Information Line on 1300 650 871 (within Australia) or +61 3 9415 4278 (outside Australia) Monday to Friday between 8.30am and 5.00pm (AEST) or visit www.centralpetroleumscheme.com.au.

FINANCIAL ADVISER



LEGAL ADVISER



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LETTER FROM THE CHAIRMAN OF CENTRAL

14 June 2017

Dear Shareholders

In the last two weeks, proposed changes affecting the gas industry have been announced by government which the Board of Central Petroleum Limited (**Central**) believe may materially affect Central's future growth prospects and should be considered by Central Shareholders before voting on the Scheme Resolution. Consequently, Central has obtained approval from the Supreme Court to provide Central Shareholders with this Second Supplementary Scheme Booklet, and to postpone the Scheme Meeting from 19 June 2017 to a new date of 29 June 2017. A copy of this Second Supplementary Scheme Booklet has been provided to the Australian Securities and Investments Commission.

Since the Court approved the distribution of the Scheme Booklet and First Supplementary Scheme Booklet, the Gas Market Reform Group (**GMRG**) has distributed its Final Design Recommendations to the Gas Pipeline Information Disclosure and Arbitration Framework (the **Final Recommendations**) arising out of the Vertigan Report to the Council of Australian Governments (**COAG**) on 14 December 2016.

In Central's view, if the Final Recommendations are implemented and the Scheme Resolution is not approved, then the risks to Central Shareholders include:

- the significant reductions in pipeline tariffs sought by Central will not be achieved;
- long term uncontracted gas prices (on a real, ex-field basis which takes in to account the cost of transporting gas from Central's assets to the East Coast) will be below the \$4.00 to \$4.50 range used by the Ernst & Young Transaction Advisory Services Limited (**Independent Expert**) in its Independent Expert's Report (contained in the Scheme Booklet);
- economic development of Central's resources may be limited to the Northern Territory market, where whilst the impact of pipeline tariffs is obviously less, so is the market size; and
- the current and future value of Central Shares will be negatively impacted.

The Final Recommendations do not have any impact on the obligations of Central or Macquarie MPVD under the Central Scheme Deed as it does not constitute a 'Central Material Adverse Change' or a 'Central Prescribed Occurrence' (as defined in the Central Scheme Deed). If the Scheme Resolution is approved and the Scheme becomes Effective, then Central Shareholders (other than the Excluded Shareholders) will receive the Scheme Consideration and only Macquarie MPVD and certain of its associates would remain exposed to the above risks.

Central has emphasised for some time the importance of pipeline tariff reform to its future and more generally to the economics of gas development in Australia. Therefore, your Directors believe it is important that Central Shareholders are fully informed of the implications of the Final Recommendations. Further, the Independent Expert had stated in its Independent Expert's Report that its "assessed value range provides Central Shareholders with exposure to the potential for this upside [from future changes in pipeline tariffs] to occur".¹ Central therefore requested the Independent Expert to update its report to reflect the likely impact of the Final Recommendations.

In Central's view, whilst the reforms are an improvement on the current process for negotiating pipeline tariffs, they are superficial and do not deal with the root cause underlying excessive pipeline tariffs and inherently favour the well-resourced incumbents.

The Central Board considers that the Final Recommendations, if adopted, are significantly less robust than expected and will have a negative and limiting impact on your company's future growth prospects and its East Coast gas strategy. This conclusion is supported by EY's Supplementary Independent Expert's Report, a copy of which is contained in Attachment A to this Second Supplementary Scheme Booklet.

Specifically, the Final Recommendations:

- confirm that neither the Alice Springs to Darwin Pipeline (**AGP**) nor the Mt Isa to Ballera Pipeline (**CGP**) will be directly affected by the proposed reforms as these are "covered pipelines". Central currently transport gas through the AGP but not the CGP; and
- do not prescribe an economic regulation process for pipeline tariffs and instead allow an arbitrator, in determining disputes regarding pipeline access arrangements, to have regard to any asset valuation techniques it deems appropriate.

Central considers the second point to be particularly important. Central has consistently advocated that current pipeline tariffs are unresponsive to market conditions and dislocated from any reasonable commercial rate of return on capital resulting in extraordinary gains to pipeline owners and visible inefficiencies within the domestic gas market.

¹ See page 48 of the Independent Expert's Report contained in Attachment A of the Scheme Booklet.

Central's expectation was that the proposed reforms would limit pipeline tariffs through a process of well-defined economic regulation requires the remaining asset investment in a pipeline (asset base) to be determined with specific regard to the returns that pipeline owners have enjoyed for decades. This approach would have resulted in a low current asset base which is then the basis for reducing pipeline tariffs based on cost of service and "commercial" returns. If a pipeline asset base is determined by accounting principles (depreciated optimised replacement cost for example), asset values are artificially inflated and maintain the excessive returns that are currently enjoyed by the pipeline sector at the expense of gas producers and domestic customers.

In the Board's opinion, the GMRG, by not prescribing a more comprehensive revaluation of the pipeline asset base and leaving the asset valuation techniques to the arbitrator, thwarts proper economic regulation of pipeline tariffs. This ensures that the economic inefficiencies within the pipeline sector will continue to be a barrier to entry for Central (and many other potential gas producers) in accessing the East Coast gas market.

Central has previously advised that it believes the new long-term Sydney city gate price (the price paid by a natural gas utility in Sydney receiving gas from the pipeline) should eventually settle around \$8/GJ and that the pipeline tariffs could be reduced in the order of \$1 to \$2/GJ if the regulatory framework championed by Central was implemented. An excerpt of Central's submission to GMRG is contained in Attachment C to this Second Supplementary Scheme Booklet.²

The GMRG has commenced work on the development of proposed new National Gas Rules reflecting the Final Recommendations, with the final revised "National Gas Rules" due to be presented to the COAG Energy Council Ministers in early August 2017.

The Independent Expert has formed the view that:

*"any impact [of the Final Recommendations] on the Valuation of Central Shares is likely to be negative as it impacts the ex-field price likely to be received for gas sold by Central. We also note that the value of the Scheme Consideration (of 20.6 cents to 21.7 cents per share, as set out in section 8 of our IER) is not directly impacted by any change in the forecast gas price and it exceeds the value that we have placed on a Central Share. Consequently, in the event that we did reduce our assumption in relation to future gas prices it would not affect our opinion as expressed in the IER as our assessed value of the Scheme Consideration would still exceed (by a greater margin) our assessed value of a Central Share."*³

The Independent Expert has also stated that "there is greater risk that the upper end of [the Independent Expert's] valuation range ... is not achieved."⁴

The Supplementary Independent Expert's Report further notes that there have continued to be developments relating to the East Coast gas market since the release of its initial report, including:

*"the announcement by the Australian Government of the Australian Domestic Gas Security Mechanism ("ADGSM"). The ADGSM is aimed at enabling the Government to invoke export controls on liquefied natural gas producers when there is a reasonable prospect of a domestic gas supply shortfall. The guidelines published in respect of the ADGSM indicate that the domestic gas prices may be used as an indicator of the shortfall, with specific reference to the netback prices."*⁵

The Supplementary Independent Expert's Report re-iterates the estimate at US\$60/bbl that the netback price would be \$8.72/GJ which is below the \$9.20 to \$9.70/GJ required to get to the \$4 to \$4.50/GJ ex-field price (which underpins the valuations) in the absence of pipeline tariff relief.⁶

Based on the \$8.72/GJ netback price as outlined above (being the price at which Central's gas is sold), the existing tariffs of \$5.20/GJ would need to be deducted, giving an ex-field price of \$3.52/GJ, or 98 cents/GJ below the top end of the valuation range.

The Independent Technical Specialist has stated that the Central net gas sales 2P reserves is 125.9 PJ.⁷ On an undiscounted basis, 98 cents/GJ equates to a decrease of gross sales revenue over the life of the fields of \$123.38 million. To put this into context, the Scheme Consideration implies a value of greater than \$162 million for all of Central's predominately producing assets acquired since Central's pivot to gas.⁸

The Independent Expert remains of the opinion that the Scheme is fair and reasonable, and therefore is in the best interests of shareholders.

BOARD RECOMMENDATION

Central has not, as at the date of this letter, received a superior proposal.

The developments discussed above reinforce the Central board's unanimous recommendation of the Scheme as they increase the relative value of the Scheme Consideration.

Based on the conclusion of the Independent Expert and other matters set out in the Scheme Booklet, the First Supplementary Scheme Booklet and this Second Supplementary Scheme Booklet, the Central Board continues to unanimously recommend that you vote in favour of the scheme in the absence of a superior proposal.

2 A full copy of Central's submission is available at <http://gmr.gov.au/sites/prod.gmr.gov.au/files/submissions/gas-pipeline/central-petroleum.pdf>.

3 See page 5 of the Supplementary Independent Expert's Report.

4 See page 5 of the Supplementary Independent Expert's Report.

5 See page 5 of the Supplementary Independent Expert's Report.

6 See page 4 of the Supplementary Independent Expert's Report.

7 See Table 1-1 on page 2 of the Independent Technical Specialist's report (contained in the Independent Expert's Report at Attachment A of the Scheme Booklet).

8 See page 28 of the Scheme Booklet.

ACTION YOU SHOULD TAKE

The Scheme Booklet and First Supplementary Scheme Booklet containing all information relevant to the scheme have previously been sent to Central Shareholders. This Second Supplementary Scheme Booklet supplements the disclosure of the Scheme Booklet and the First Supplementary Scheme Booklet and Central Shareholders are encouraged to read the documents in their entirety before voting on the scheme.

We encourage you to vote by attending the Scheme Meeting, or if you are unable to attend, by completing and returning the Scheme Voting Form that accompanied this Second Supplementary Scheme Booklet. You may also lodge your vote online by accessing www.centralpetroleumscheme.com.au and following the instructions set out therein.

The postponed Scheme Meeting will be held at 10.30am (AEST) on Thursday, 29 June 2017 at PwC Brisbane offices, Apollo Room, Level 23, 480 Queen Street, Brisbane, QLD 4000.

Central Shareholders that have already voted are entitled to change their vote by submitting a new Scheme Voting Form. Any Scheme Voting Forms that have previously been validly lodged prior to the date of this Second Supplementary Scheme Booklet will be deemed valid for the postponed Scheme Meeting unless revoked by the shareholder. If a new Scheme Voting Form is submitted it will be taken to revoke any previously submitted Scheme Voting Form.

If you have any questions after reading this Second Supplementary Scheme Booklet, please call the Central Shareholder Information Line on 1300 650 871 (within Australia) or +61 3 9415 4278 (outside Australia) between 8.30am and 5.00pm (AEST), visit www.centralpetroleumscheme.com.au or contact your legal, financial, taxation or other professional adviser.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Robert Hubbard', written in a cursive style.

Robert Hubbard
Chairman

REVISED TIMETABLE

Key dates

Second Supplementary Scheme Booklet despatched to Central Shareholders	Friday, 16 June 2017
Latest time and date for receipt of the updated Scheme Voting Form (including forms lodged online) or powers of attorney by the Central Share Registry for the Scheme Meeting	10.30am on Tuesday, 27 June 2017
Scheme Meeting	10.30am on Thursday, 29 June 2017
General meeting called under section 249D of the Corporations Act	10.00am on 19 July 2017

If the Scheme Resolution is approved by Central Shareholders (other than the Excluded Shareholders):

Second Court Date	Tuesday, 4 July 2017
Court order lodged with ASIC and announcement to ASX	
Effective Date	
Record Date (for determining entitlements of the Scheme Shareholders to Scheme Consideration)	7:00 pm on Tuesday, 11 July 2017
Implementation Date (Scheme Consideration will be paid to Scheme Shareholders on the Implementation Date)	Tuesday, 18 July 2017

All dates in the above timetable are indicative only and are subject to change. Central and Macquarie MPVD may vary any or all of these dates and times and will provide reasonable notice of any such variation. Certain times and dates are conditional on the approval of the Scheme by the Scheme Shareholders and the Court.

Any changes will be announced by Central to ASX and published on Central's website at www.centralpetroleum.com.au.

ADDITIONAL INFORMATION

Central is providing this Second Supplementary Scheme Booklet to supplement disclosure in the Scheme Booklet and the First Supplementary Scheme Booklet in relation to the proposed acquisition by Macquarie MPVD of all of the ordinary shares in Central (other than Excluded Shares) through a scheme of arrangement between Central Shareholders (other than Excluded Shareholders) and Central.

You should read this Second Supplementary Scheme Booklet in conjunction with the Scheme Booklet and First Supplementary Scheme Booklet in their entirety before making any decision as to how to vote at the Scheme Meeting. Any terms not defined in this Second Supplementary Scheme Booklet have the corresponding meanings given in section 10.1 of the Scheme Booklet.

1 RECOMMENDATION AND VOTING INTENTIONS

The Central Board continues to unanimously recommend that Central Shareholders (other than the Excluded Shareholders) vote in favour of the Scheme Resolution in the absence of a Superior Proposal.

The Central Board maintains its view that the reasons for Central Shareholders (other than the Excluded Shareholders) to vote in favour of the Scheme Resolution outweigh the reasons to vote against the Scheme Resolution. The reasons to vote for and against the Scheme Resolution are set out in sections 2.2 and 2.3 of the Scheme Booklet, respectively, as well as in the First Supplementary Scheme Booklet and this Second Supplementary Scheme Booklet.

In considering whether to vote in favour of the Scheme Resolution, the Central Board encourages you to:

- carefully read the Scheme Booklet (including the Independent Expert's Report), the First Supplementary Scheme Booklet and this Second Supplementary Scheme Booklet (including the Supplementary Independent Expert's Report) in their entirety;
- consider the choices available to you as outlined in section 3.8 of the Scheme Booklet;
- have regard to your individual risk profile, portfolio strategy, taxation position and financial circumstances; and
- obtain financial advice from your broker or financial adviser on the Scheme and obtain taxation advice on the effect of the Scheme becoming Effective.

Each member of the Central Board intends to vote in favour of the Scheme Resolution at the Scheme Meeting in relation to the Central Shares held by them, or on their behalf, in the absence of a Superior Proposal.

Details of the Relevant Interests of the Central Directors in Central Securities (including Central Shares) are set out in section 5.5 of the Scheme Booklet.

2 POSTPONED SCHEME MEETING AND VOTING

Central has obtained approval from the Court to postpone the Scheme Meeting from the scheduled date of Monday, 19 June 2017 to provide Central sufficient time to prepare and despatch, and to allow Central Shareholders reasonable time to consider, this Second Supplementary Scheme Booklet.

The postponed Scheme Meeting will be held at 10.30am (AEST) on Thursday, 29 June 2017 at PwC Brisbane offices, Apollo Room, Level 23, 480 Queen Street, Brisbane, QLD 4000.

The Notice of Postponed Scheme Meeting is contained in Attachment B to this Second Supplementary Scheme Booklet. An updated Scheme Voting Form has been provided with this Second Supplementary Scheme Booklet.

You may also lodge your vote online by accessing www.centralpetroleumscheme.com.au and following the instructions set out therein.

Central Shareholders that have already voted are entitled to change their vote by submitting a new Scheme Voting Form. Any Scheme Voting Forms that have previously been validly lodged prior to the date of the Second Supplementary Scheme Booklet will be deemed valid for the postponed Scheme Meeting unless revoked. If a new Scheme Voting Form is submitted it will be taken to revoke any previously submitted Scheme Voting Form.

To be valid, a Scheme Voting Form casting a direct vote or appointing a proxy must be received by Computershare Investor Services Pty Limited by 10.30am (AEST) on Tuesday, 27 June 2017.

For further information on proxy voting, please refer to the detailed instructions contained in the updated Scheme Voting Form which accompanied this Second Supplementary Scheme Booklet.

3 GENERAL

A copy of the Scheme Booklet was sent to Central Shareholders on 5 May 2017 and a copy of the First Supplementary Scheme Booklet was sent to Central Shareholders on 5 June 2017. An electronic copy of each document is available at www.centralpetroleumscheme.com.au. Shareholders should refer to the disclaimers and important notices contained in the Scheme Booklet immediately following the front cover, including but not limited to the paragraphs entitled 'no investment advice', 'forward looking statements', 'foreign jurisdictions', 'timetable and dates' and 'privacy', which are also applicable in respect of this Second Supplementary Scheme Booklet.

Ernst & Young Transaction Advisory Services Limited ACN 003 599 844 has prepared the Supplementary Independent Expert's Report (contained in Attachment A to this Second Supplementary Scheme Booklet) and:

- has consented to the inclusion of the report in this Second Supplementary Scheme Booklet; and
- is responsible for the report.

None of Central, its Subsidiaries, directors, officers, employees or advisers nor Macquarie MPVD and the Macquarie MPVD Entities and their respective directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the information contained in the Supplementary Independent Expert's Report except, in the case of Central, in relation to the information it has provided to the Independent Expert.

This Second Supplementary Scheme Booklet is dated 14 June 2017. Other than as expressly set out in this Second Supplementary Scheme Booklet, no other information in the Scheme Booklet, nor the First Supplementary Scheme Booklet, has changed.

A copy of this Second Supplementary Scheme Booklet has been provided to ASIC and a copy has been released to the ASX. Neither ASIC nor ASX is responsible for the content of this Second Supplementary Scheme Booklet.

The Central Board believes that the Scheme does not involve any circumstances in relation to the affairs of Central that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

As at the date of this Second Supplementary Scheme Booklet:

- none of the Conditions Precedent have been satisfied or waived;
- Macquarie MPVD has indicated that it would be willing to waive the Condition Precedent in relation to the Central Options held by Freestone, former employees and former directors of Central that have not been cancelled subject to being satisfied with the treatment of the other remaining Central Options; and
- all of the Central Directors believe that the other Conditions Precedent are capable of being satisfied or will ultimately be waived with the agreement of Macquarie MPVD.

Other than as contained or referred to in the Scheme Booklet, the First Supplementary Scheme Booklet and this Second Supplementary Scheme Booklet, there is no information material to the making of a decision by Central Shareholders whether or not to vote in favour of the Scheme Resolution that is known to any Director and which has not previously been disclosed to Central Shareholders.

4 CONSENTS

The following parties have consented to be named in the form and context in which it is named in this Second Supplementary Scheme Booklet and none of them have withdrawn that consent prior to the date of this Second Supplementary Scheme Booklet:

- Macquarie MPVD Pty Limited;
- RISC Operations Pty Ltd as the Independent Technical Specialist;
- Computershare Investor Services Pty Limited; and
- Ernst & Young Transaction Advisory Services Pty Limited as the Independent Expert.

Each person named above:

- has not authorised or caused the issue of this Second Supplementary Scheme Booklet;
- does not make, or purport to make, any statement in this Second Supplementary Scheme Booklet or any statement on which a statement in this Second Supplementary Scheme Booklet is based, other than:
 - RISC Operations Pty Ltd in relation to its independent technical report; and
 - Ernst & Young Transaction Advisory Services Pty Limited in relation to its Independent Expert's Report and Supplementary Independent Expert's Report; and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Second Supplementary Scheme Booklet other than a reference to its name and the statement (if any) included in this Second Supplementary Scheme Booklet with the consent of that party as specified in this section 4.

5 IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT

At the first court hearing held on Friday, 28 April 2017, the Court ordered Central to convene a Scheme Meeting to be held on Monday, 5 June 2017 to consider and vote on the Scheme Resolution. At a court hearing on Wednesday, 31 May 2017, the Court ordered that the Scheme Meeting be postponed and reconvened on Monday, 19 June 2017. At a further court hearing on 14 June 2017, the Court ordered that the Scheme Meeting be further postponed and reconvened on 29 June 2017. The notice convening the postponed Scheme Meeting is set out in Attachment B to this Second Supplementary Scheme Booklet.

The fact that, under subsection 411(1) of the Corporations Act, the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the Notice of Scheme Meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how Central Shareholders should vote (on this matter Central Shareholders must reach their own conclusion); or
- has prepared, or is responsible for the content of, the explanatory statement.

QUERIES

If you have any questions after reading this Second Supplementary Scheme Booklet, please call the Central Shareholder Information Line on 1300 650 871 (within Australia) or +61 3 9415 4278 (outside Australia) between 8.30am and 5.00pm (AEST), visit www.centralpetroleumscheme.com.au or contact your legal, financial, taxation or other professional adviser.

ATTACHMENT A – SUPPLEMENTARY INDEPENDENT EXPERT’S REPORT



Ernst & Young Transaction Advisory
Services Limited
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

The Directors
Central Petroleum Limited
Level 7, 369 Ann Street
Brisbane QLD 4000

14 June 2017

Dear Directors

Supplementary independent expert’s report in relation to the proposed scheme of arrangement with Macquarie MPVD Pty Ltd

Background

On 10 March 2017 (“Announcement Date”), Central Petroleum Limited (“Central” or the “Company”) announced that Macquarie MPVD Pty Limited (“Macquarie MPVD”) proposed to acquire 100% of the shares in Central not held by Macquarie MPVD or its related bodies corporate (as defined under section 50 of the *Corporations Act 2001* (“The Act”)), by way of a Scheme of Arrangement (“Proposed Scheme”). One of the conditions precedent to the Proposed Scheme is the approval by holders of ordinary shares in Central (“Central Shares”) (“Central Shareholders”).

Under the Proposed Scheme, Central Shareholders will receive cash consideration of 20 cents for every Central Share held, and one Contingent Value Note (“CVN”)¹, issued by Macquarie Amadeus Pty Limited (“MAL”), for every Central Share held as at the record date of the Proposed Scheme (the “Scheme Consideration”). Any future payment from the CVNs are contingent on the “best technical estimate” of gas within select exploration stage assets (the “Relevant Assets”) at a future date and will take the form of unlisted, unsecured, non-transferrable notes in MAL. In the event that the CVNs are paid, that payment will occur four years after the successful implementation of the Proposed Scheme, and after the “best technical estimate” is provided by an approved technical specialist.

Ernst & Young Transaction Advisory Services Limited (“EY Transaction Advisory Services”) was engaged by the Directors of Central to prepare an independent expert’s report, the purpose of which is to state whether or not, in our opinion, the Proposed Scheme is fair and reasonable, and in the best interests of Central Shareholders. Our independent expert’s report (the “IER”) was dated 28 April 2017 and accompanied the scheme booklet sent to Central Shareholders dated 2 May 2017. The opinion reached in the IER was that the Proposed Scheme was fair and reasonable, and therefore was in the best interests of Central Shareholders. The key factors considered in forming this opinion are set out in the IER.

In this supplementary independent expert’s report (“Supplementary IER”) we provide further analysis and discussion in relation to the conclusions set out in the IER. Specifically, we have noted the publication, by the COAG Energy Council’s Gas Market Reform Group (“GMRG”), of the final design recommendation for the Gas Pipeline Information Disclosure and Arbitration Framework (“GMRG Design Recommendation”)² on 5 June 2017.

This Supplementary IER addresses the impact of the GMRG Design Recommendation only, and does not seek to update any other market-related or valuation parameters. Unless otherwise stated, this further analysis is as at the date of the IER, being 28 April 2017, and we have not updated our analysis for changes in market or economic conditions after that date. This report should be read in conjunction with statements made in the IER.

¹ CVNs will not be issued to Ineligible Foreign Shareholders but instead to a Custodian (as defined in the Central Scheme Deed). Upon payment of the redemption amount these shareholders will receive a cash amount from the Custodian in respect of the CVN.

² Gas Pipeline Information Disclosure and Arbitration Framework – Final Design Recommendation, 5 June 2017

Publication of the Gas Pipeline Information Disclosure and Arbitration Framework

On 19 August 2016, the COAG Energy Council directed the Independent Chair of the GMRG, Dr Michael Vertigan AC, to examine the current regulatory test for the regulation of gas pipelines, in consultation with stakeholders, and make recommendations on any further actions. Dr Vertigan undertook his examination in the second half of 2016 and his recommendations were endorsed by the COAG Energy Council on 14 December 2016³. A key recommendation was to strengthen the bargaining power of users of pipelines (i.e. shippers) by *“introducing a binding commercially oriented arbitration mechanism into the National Gas Law that would be available to parties as a backstop if commercial agreement cannot be reached”*⁴.

On 5 June 2017, the GMRG published its final design recommendation for the Gas Pipeline Information Disclosure and Arbitration Framework (GMRG Design Recommendation). The publication was accompanied by a statement that the COAG Energy Council’s Standing Committee of Officials (“SCO”) had agreed that the GMRG proceed with developing the draft National Gas Rules, which will implement the recommended design. The draft rules are expected to be presented to the COAG Energy Council Ministers for consideration and approval in August 2017. The GMRG has indicated that implementation is expected to occur by 1 September 2017. The new framework will be reviewed by the SCO two years after it has been implemented, at which time stakeholders will be consulted with regard to the effectiveness of the new rules.

Subject to approval by the COAG Energy Council Ministers, we understand that the GMRG’s recommendation on the framework design is final, and there is no further consultation process. The GMRG Design Recommendation is the result of a process undertaken by the GMRG, which included consultation with key stakeholders. The GMRG’s three key framework design recommendations were in relation to: information disclosure requirements, arbitration mechanisms and arbitration principles. Each of these recommendations is important and will have an impact on negotiations between pipeline owners and shippers going forward.

We expect that both pipeline owners and shippers will consider that the GMRG’s recommendations have not met their expectations. Whilst each of the recommendations has an impact on Central, and we consider that the new information disclosures and existence of an arbitration mechanism will likely be positive for Central relative to current circumstances, our considerations in this report are focussed on the ‘arbitration principles’. We expect that the ‘arbitration principles’ recommended by the GMRG are likely to have a negative impact on the prospects of significant reductions in pipeline tariffs relative to the reductions that Central has been advocating for. In Central’s view this is likely to outweigh any positive effect of the new information disclosures and existence of an arbitration mechanism. The reason for this focus is that these ‘arbitration principles’ influence the pricing principles upon which any potential arbitration would be based. It is important to note that a key intention of the GMRG’s recommendations is for commercial negotiation to be the principal means by which pipeline access terms are determined. The GMRG states that its intention is that the arbitration mechanism is “rarely triggered”. Notwithstanding that arbitration is likely to be a last resort, it is not unreasonable to expect that future commercial negotiations will be conducted with the knowledge of the pricing principles that would be applied if the process were to end up in arbitration.

Central and its Managing Director have been public advocates for changes to pricing principles and mechanisms for pipeline tariffs. This position was reiterated in Central’s submission to the GMRG dated 13 April 2017. In respect of arbitration principles, Central’s position (which was shared by other producers and users) was that pricing should be based on cost of service (including a commercial rate of return to reflect the risks borne by the pipeline operator), with pricing principles to provide guidance on how the actual cost of service provision was to be determined. In particular, Central proposed that the starting asset values, which underpin the commercial rate of return, be determined in advance of any arbitration⁵. Under one interpretation, this approach would have had the effect of applying regulatory pricing principles to non-regulated pipelines.

In particular, we refer to the following extract from Central’s submission:

“The most relevant and important point is the clarity of the pricing principles. The clearer the guidelines the less likely arbitration will be called upon because the parties will be able to calculate

³ Examination of the current test for the regulation of gas pipelines, Dr Michael Vertigan, 14 December 2016

⁴ Gas Pipeline Information Disclosure and Arbitration Framework, GMRG, 5 June 2017

⁵ Central submission to GMRG, 13 April 2017

the likely arbitration outcome and alter their negotiating stances accordingly. Central supports the “cost of service plus a reasonable return” model and this depends “upon how the starting asset values are determined”. Central supports the AER being asked to determine the appropriate starting asset value in advance.”

The GMRG Design Recommendation ultimately does not provide the prescriptive pricing principles for which Central has advocated. In particular, it does not recommend the determination of starting asset values in advance of commercial negotiations. Specifically, the GMRG states:

“While the GMRG can see merit in providing the arbitrator with some additional guidance on asset valuation, the intention is not, as noted above, to mirror the regulatory arrangements applying to full regulation pipelines. The GMRG is not therefore recommending the adoption of prescriptive pricing principles and will allow the arbitrator to have some discretion on how it applies the principles.”

The impact of this recommendation is that, whilst the new rules will provide a process for greater information disclosure and the potential for arbitration, the principles under which prices will be set in any arbitration are not clear. What is clear is that these principles are not intended to impose full regulatory-style pricing principles on unregulated pipelines. In addition, the arbitrator will have discretion with regard to the asset valuation methodology used to determine tariffs. As such, the recommendations are less likely to have the impact of significantly reducing pipeline tariffs to the extent advocated by Central.

It is difficult to precisely determine the impact that the GMRG Design Recommendation will have on pipeline tariffs in the future. Central’s Managing Director has clearly stated⁶ that the recommendations fall short of the reform that Central has been agitating for. In contrast, some analysts and market commentators have noted that the recommendations also do not meet the expectations of pipeline owners. The relevant point for our purposes is to clarify that whilst the new framework may ultimately result in lower tariffs in certain instances (either through commercial negotiation with better information and the threat of arbitration, or through arbitration itself), any reduction in tariffs is unlikely to be to the extent advocated by Central.

Impact on Central

Section 3.2.6.3 of our IER summarises the pipelines which Central (or its customers) need to access in order to transport gas to the East Coast. As indicated in this section of our IER, gas transported from Central’s assets to Wallumbilla would be subjected to total pipeline tariffs of \$5.20/GJ, based on the advertised tariffs published by the pipeline operators. This summary is replicated in the table below for illustrative purposes:

Indicative pipeline tariffs (based on stated tariffs from the operators)				
Pipeline	Connection points	Operator	Tariff (\$/GJ)	Notes
Amadeus Gas Pipeline	Amadeus Basin – Tennant Creek	APA	0.60	Indicative firm charge
NGP	Tennant Creek – Mt Isa	Jemena	2.12	\$1.40 firm forward haulage, plus \$0.72 nitrogen removal (assuming 10 yr. term)
Carpentaria Gas Pipeline	Mt Isa – Ballera	APA	1.32	Indicative firm charge
South West QLD Pipeline	Ballera – Wallumbilla	APA	1.16	Indicative firm charge
Total			5.20	

Source: APA and Jemena websites, accessed March 2017

It should be noted that the Amadeus Gas Pipeline and the Carpentaria Gas Pipeline are covered pipelines under the access regime of the National Gas Law and the National Gas Rules. The Amadeus Gas Pipeline is subject to full access regulation, whereas the Carpentaria Gas Pipeline is subject to light access regulation. These pipelines are technically not included in the scope of the GMRG Design Recommendation. However, we note that in section 3.3.5 of the GMRG Design Recommendation, the GMRG provides that the access dispute mechanism applying to covered pipelines should “mirror the arbitration mechanism developed through this process”.

⁶ Gas pipeline reforms “like offering ice cream on death row”, Australian Financial Review, 7 June 2017



Commentary regarding the arbitration principles (which ultimately impact pricing) for covered pipelines was not within the scope of the GMRG's recommendations. These principles may form part of the review currently being undertaken by the Australian Energy Market Commission ("AEMC") into Parts 8-12 of the National Gas Rules, however it is difficult to envisage that this review will recommend a fundamentally different approach to pricing principles from the GMRG.

Impact on future gas prices assumed in the IER

A key factor which drives the valuation of Central Shares in our IER is our assumption regarding the price at which uncontracted gas can be sold into the East Coast gas market. Section 7.2.1.3 explains the basis for our forecast gas prices. As indicated in this section, our valuation in the IER is underpinned by a range of assumed uncontracted gas prices, of between \$4.00/GJ and \$4.50/GJ (on a real, ex-field basis which takes into account the cost of transporting gas from Central's assets to the East Coast). This range of assumptions is the primary driver of the valuation range.

Being on a real, ex-field basis means that these prices are held constant in real terms, and are inflated in nominal terms in line with the assumed headline rate of inflation. Further, it means that the effective price for gas delivered at, say, Wallumbilla is the ex-field price plus the full impact of pipeline tariffs. Assuming that the tariffs outlined in the table above are applied, this would mean a delivered price range of \$9.20/GJ to \$9.70/GJ (i.e. \$4.00/GJ plus \$5.20/GJ at the low end, and \$4.50/GJ plus \$5.20/GJ at the high end). This example is illustrative only, as Wallumbilla was not the only delivery point considered when forming our views with regard to forecast gas prices.

It is also important to note that the relevant assumption for the valuation of Central is the price at which relatively large quantities of gas may be sold into the East Coast market over the long term. The current market uncertainty, which is discussed at length in our IER, means that very few long term gas supply agreements have been struck in recent years. As such, many of the price benchmarks noted in the media are for short term contracts, or observations from spot markets (which we have indicated in our IER are not considered to be deep or liquid enough to make meaningful observations from). These short term observations can be very different from long term contracts, and are typically higher.

Whilst it is very difficult to forecast long term East Coast gas prices with accuracy in the current environment, we note that the implied price range shown above (of \$9.20/GJ to \$9.70/GJ, delivered at Wallumbilla) is relatively high compared to observable benchmark data. This benchmark data, and other factors considered when forming our view on forecast pricing are noted in section 7.2.1.3 of the IER, and include publicly available information (such as AEMO), our understanding of negotiations Central has had with buyers in the market, LNG netback pricing and other considerations. For example, as noted in section 3.2.5 of our IER, at an oil price of US\$60/bbl EnergyQuest estimates that the LNG netback price at Wallumbilla is \$8.72/GJ⁷. Given that Brent crude is currently trading at closer to US\$50/bbl, the current netback price can be inferred to be lower than this. However, the long term Brent crude price assumption presented in section 7.2.1.2 of IER is US\$65/bbl (on a real basis, applied from 2021), which is higher than current prices, and infers a higher long term netback price for East Coast gas.

In section 7.2.1.3 of the IER, we state:

"Our range reflects that there could be upside to the ex-field price received by Central if any change in pipeline regulation occurs, or if Central is able to negotiate backhaul tariffs."

and, *"We consider that the high end of the price range applied in our analysis is higher than the average of the various data points considered, indicating an allowance for potential future changes in pipeline tariffs. We have adopted this relatively higher pricing in order to ensure that our assessed value range provides Central Shareholders with exposure to the potential for this upside to occur."*

The GMRG Design Recommendations reduce the likelihood that any potential future reductions in pipeline tariffs will be as significant as the reductions advocated by Central. This places pressure on our assumed range of ex-field gas prices, particularly at the high end of the range, as it means that it may no longer be

⁷ EnergyQuest 'Energy Quarterly' March 2017

appropriate to include allowances for significantly lower pipeline tariffs due to future changes in regulation, especially in the short to medium term (as indicated in section 7.2.1.3 of the IER).

At the time of IER, we considered it appropriate to make this allowance in order to provide Central Shareholders with the benefit of this potential upside, given that the GMRG's recommendations were not yet known and that the submissions from various stakeholders, including Central, were advocating pricing principles which would be more prescriptive than those that have ultimately been recommended. In addition, in the event that any decrease in pipeline tariffs were to be realised, Central would be one of the largest beneficiaries of any decrease, due to the magnitude of total tariffs (for example, through four separate transmission pipelines to Wallumbilla) that will need to be paid for Central's gas to reach the East Coast market.

Since the date of the IER, there have continued to be developments regarding the East Coast gas market, in addition to the publication of the GMRG Design Recommendation. Notably, these developments include the announcement by the Australian Government of the Australian Domestic Gas Security Mechanism ("ADGSM"). The ADGSM is aimed at enabling the Government to invoke export controls on liquefied natural gas producers when there is a reasonable prospect of a domestic gas supply shortfall. The guidelines published in respect of the ADGSM indicate that domestic gas prices may be used as an indicator of a shortfall, with specific reference to a netback price. We note that the ADGSM is still in consultation phase, and further clarity is required with regard to the practical workings of the mechanism.

Further to the ADGSM and the GMRG's recommendations, there is also continued speculation in the market regarding drivers of gas price, including both drivers which would decrease price (for example, demand destruction from industrial users exiting the market if domestic prices reach a certain threshold) and drivers which may increase prices (for example, if a changing Australian energy mix were to mean increased use of dispatchable gas-fired electricity generation to compliment renewables).

Impact on our opinion in respect of the Proposed Scheme

We have considered the GMRG Design Recommendation, noting that it is yet to be formally approved by the COAG Energy Council Ministers. We consider that the implementation of these recommendations, and the assumed application of similar arbitration principles to covered pipelines, will reduce the extent to which Central (or its customers) are likely to be able to realise significant reductions in pipeline tariffs. This is particularly so in the short to medium term, particularly until the next review by the SCO two years after implementation. While some reductions could possibly be achieved they are likely to be less significant than those which might have been achieved if the principles sought by Central and other proponents had been adopted.

We expect that any impact of the above on the valuation of Central Shares is likely to be negative as it impacts the ex-field price likely to be received for gas sold by Central. We also note that the value of the Scheme Consideration (of 20.6 cents per share to 21.7 cents per share, as set out in section 8 of our IER) is not directly impacted by any change in the forecast gas price and it exceeds the value that we have placed on a Central Share. Consequently, in the event that we did reduce our assumption in relation to future gas prices it would not affect our opinion as expressed in the IER as our assessed value of the Scheme Consideration would still exceed (by a greater margin) our assessed value of a Central Share.

We have ultimately not amended the value range for Central Shares as presented in our IER as both the upper and lower ends of our range of assumed gas prices remain in what we consider to be an appropriate range, albeit that at the upper end of the range there is greater risk associated with the underlying assumed gas prices due to the decreased likelihood of significant decrease in pipeline tariffs. We provide below further sensitivity analysis in addition to that which was included in section 7.5 of the IER.

The observations noted above mean that there is greater risk that the upper end our valuation range in particular is not achieved. We remind readers that this range of values is on a control basis and is not an assessment of the likely trading price of Central Shares in the event that the Scheme does not proceed. As we noted in section 9.4.2 of the IER, in the event that the Proposed Scheme does not proceed, and in the absence of a superior scheme, the price of Central Shares may fall.

Sensitivity of valuation range to gas price assumption

The range of values for a Central Share concluded upon in our IER is 15.0 cents to 20.5 cents per share, on a controlling interest basis. This range is highlighted in bold in the sensitivity table below.

The sensitivity of our valuation of Central to the assumed forecast price of uncontracted East Coast gas is illustrated in the chart in section 7.5 of our IER. Further, the range of forecast gas prices is the key driver of the valuation range concluded upon in our IER.

In light of the GMRG Design Recommendation, we consider it appropriate to re-iterate the sensitivity of the value to the forecast gas price assumption, and to clarify that we consider the risk to be on the downside.

The table below presents a summary of the sensitivity of the value of Central Shares to changes in assumed gas prices. Since our range is also driven by a range on the probability of Palm Valley Deep occurring (as advised by RISC, and noted in section 7.2 of the IER), we have presented two separate sensitivities below⁸.

For reference, our assessment of fairness of the Proposed Scheme in the IER is based on a comparison of our valuation of a Central Share with our assessment of the value of the Scheme Consideration, which is 20.6 cents to 21.7 cents.

Value of a Central Share on a controlling interest basis (cents/share)				
Gas price (real, ex-field, A\$/GJ)	3.75	4.00	4.25	4.50
Palm Valley Deep – 12% probability	13.2	15.0	16.9	18.9
Palm Valley Deep – 20% probability	13.9	16.1	18.4	20.5

Source: EY Transaction Advisory Services analysis

Note: The table above reflects the production profiles and modelling provided to us and applied at the time of our IER

While we continue to believe that our assessed range of gas price assumptions, and hence Central share values, remains appropriate, given the potentially negative factors outlined above we have included a lower gas price scenario (\$3.75/GJ) and also a mid point price scenario of \$4.25/GJ.

Conclusion

For the reasons set out above, our opinion remains that the Proposed Scheme is fair and reasonable, and therefore is in the best interests of Central Shareholders.

Our opinion is made as at the date of the IER and, unless otherwise stated, reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full IER. The financial services guide attached to the IER continues to apply. Our fees for this supplementary independent expert's report, and for consideration of the supplementary scheme booklet issued by Central, are \$15,000 exclusive of GST.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited



Stuart Bright
Director and Representative



Evgeny Khrustalev
Director and Representative

⁸ It should be noted that, as indicated in the table in section 6.1.5 of the IER, the value of Palm Valley Deep derived using a discounted cash flow ("DCF") calculation under our low case gas price scenario is lower than the values derived by RISC using alternative valuation methods, meaning that we have adopted RISC's value for Palm Valley Deep at the low end of the range. This approach is reflected in the sensitivity shown above, meaning that when the DCF value of either Palm Valley Deep or Ooraminna is lower than the value derived by RISC, we have adopted RISC's value.

ATTACHMENT B – NOTICE OF POSTPONED SCHEME MEETING

Central Petroleum Limited ACN 083 254 308 (**Central**)

Notice is hereby given that, by an order of the Supreme Court of Queensland made on Wednesday, 14 June 2017, pursuant to subsection 411(1) of the Corporations Act, a meeting of Central Shareholders (other than the Excluded Shareholders) will be held at PwC Brisbane offices, Apollo Room, Level 23, 480 Queen Street, Brisbane, QLD 4000 on Thursday, 29 June 2017, commencing at 10.30am (AEST) (**Scheme Meeting**).

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without amendment or any alterations or conditions required by the Court to which Central and Macquarie MPVD Pty Limited (**Macquarie MPVD**) agree) proposed to be made between Central and Central Shareholders (other than the Excluded Shareholders) (the **Scheme**).

A copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet dated 28 April 2017 and supplemented by the Supplementary Scheme Booklet dated 31 May 2017 and the Second Supplementary Scheme Booklet dated 14 June 2017.

SCHEME RESOLUTION

The meeting will be asked to consider and, if thought fit, pass (with or without amendment) the following resolution (the **Scheme Resolution**):

'That, pursuant to and in accordance with the provisions of section 411 of the *Corporations Act 2001* (Cth), the scheme of arrangement proposed between Central Petroleum Limited and the holders of its ordinary shares (other than the Excluded Shareholders), as contained in and more particularly described in the Scheme Booklet, is agreed to, with or without alterations or conditions as approved by the Supreme Court of Queensland to which Central Petroleum Limited and Macquarie MPVD Pty Limited agree.'

Note: The Excluded Shareholders are not eligible to vote their Central Shares at the Scheme Meeting.

CHAIR

The Court has directed that Mr Robert Hubbard is to act as chair of the meeting (and that, if Mr Robert Hubbard is unable or unwilling to attend, Mr Wrixon Gasteen is to act as chair of the meeting) and has directed the chair to report the result of the Scheme Resolution to the Court.

Dated 14 June 2017

By order of the Court and the Central Board

sign here ▶



Company Secretary

print name **Joseph Morfea**

1. GENERAL

This notice of meeting relates to the Scheme and should be read in conjunction with Central's Scheme Booklet dated 28 April 2017 (the **Scheme Booklet**), the Supplementary Scheme Booklet dated 31 May 2017 (the **First Supplementary Scheme Booklet**) and the Second Supplementary Scheme Booklet dated 14 June 2017 of which this notice forms part (the **Second Supplementary Scheme Booklet**). The Scheme Booklet, First Supplementary Scheme Booklet and Second Supplementary Scheme Booklet contain important information to assist you in determining how to vote on the Scheme Resolution.

A copy of the Scheme is set out in Attachment D of the Scheme Booklet.

Capitalised terms used but not defined in this notice have the defined meanings set out in section 10.1 of the Scheme Booklet, unless the context otherwise requires.

2. CENTRAL BOARD RECOMMENDATION AND VOTING INTENTIONS

As noted in the Scheme Booklet, First Supplementary Scheme Booklet and the Second Supplementary Scheme Booklet, the Central Board unanimously recommends that Central Shareholders (other than the Excluded Shareholders) vote in favour of the Scheme Resolution and each member of the Central Board intends to vote in favour of the Scheme Resolution, in the absence of a Superior Proposal.

3. SHAREHOLDER APPROVAL

For the proposed Scheme to be binding in accordance with section 411 of the Corporations Act, the Resolution must be agreed to by:

- unless the Court orders otherwise, a majority in number of Central Shareholders (other than the Excluded Shareholders) present and voting (either in person or by proxy, attorney or, in the case of corporate Central Shareholders, body corporate representative) at the Scheme Meeting; and
- at least 75% of the votes cast on the Scheme Resolution (either in person or by proxy, attorney or, in the case of corporate Central Shareholders, body corporate representative).

4. COURT APPROVAL

Under paragraph 411(4)(b) of the Corporations Act, the Scheme (with or without amendment or any alteration or condition required by the Court) is subject to the approval of the Court. If the Scheme Resolution is agreed to by the Requisite Majority and the Conditions Precedent to the Scheme (other than approval by the Court) are satisfied or waived (if applicable) by the time required under the Scheme, Central intends to apply to the Court for the necessary orders to give effect to the Scheme.

In order for the Scheme to become Effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

5. ENTITLEMENT TO VOTE

The time for determining eligibility to vote at the Scheme Meeting is 7.00pm (AEST) on Tuesday, 27 June 2017. Only those Central Shareholders (other than the Excluded Shareholders) entered on the Central Share Register at that time will be entitled to attend and vote at the meeting, either in person, by proxy or attorney, or in the case of a corporate Central Shareholder, by a body corporate representative. The remaining comments in these explanatory notes are addressed to Central Shareholders entitled to attend and vote at the meeting. An Excluded Shareholder (as defined in the Scheme Booklet and also described in section 6 below) is not entitled to vote at the Scheme Meeting.

6. VOTING EXCLUSIONS

Central will disregard any votes cast on the Scheme Resolution by an Excluded Shareholder, unless the vote is cast by such persons as proxy for a person who is entitled to vote, in accordance with the directions on their voting form.

7. HOW TO VOTE

Central Shareholders that have already voted are entitled to change their vote by submitting a new Scheme Voting Form. Any Scheme Voting Forms that have previously been validly lodged prior to the date of the Second Supplementary Scheme Booklet will be deemed valid for the postponed Scheme Meeting unless revoked. If a new Scheme Voting Form is submitted it will be taken to revoke any previously submitted Scheme Voting Form.

Voting will be conducted by poll.

If you are a Central Shareholder entitled to vote at the meeting, you may vote by:

- attending and voting in person;
- appointing one or two proxies to attend and vote on your behalf, using the Scheme Voting Form that accompanied the Second Supplementary Scheme Booklet (which may be lodged online);
- appointing an attorney to attend and vote on your behalf, using a power of attorney;
- in the case of a body corporate, appointing a body corporate representative to attend the meeting and vote on your behalf, using a certificate of appointment of body corporate representative; or
- voting directly, using the Scheme Voting Form that accompanied the Second Supplementary Scheme Booklet (which may be lodged online).

8. ATTENDANCE

If you or your proxies, attorneys or representative(s) plan to attend the meeting, please arrive at the venue at least 30 minutes before the scheduled time for commencement of the meeting, so that your shareholding can be checked against the Central Share Register, any power of attorney or certificate of appointment of body corporate representative verified, and your attendance noted.

9. JOINTLY HELD SECURITIES

If you hold Central Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the meeting, only the vote of the holder whose name appears first on the Central Share Register will be counted.

See also the comments in paragraph 10.2 below regarding the appointment of a proxy by persons who jointly hold Central Shares.

10. VOTING

10.1 Voting in person

To vote in person, you must attend the meeting.

Eligible Central Shareholders who wish to attend and vote at the meeting in person will be admitted and given a voting card at the point of entry to the meeting, once they have disclosed their name and address.

10.2 Voting by proxy or voting directly

Appointing a proxy

You may appoint one or two proxies by using the Scheme Voting Form. Your proxy need not be another Central Shareholder. Each proxy will have the right to vote on the poll and also to speak at the meeting.

A vote given in accordance with the terms of a proxy appointment is valid despite the revocation of that appointment, unless notice in writing of the revocation has been received by the Central Share Registry by 10.30am (AEST) on Thursday, 29 June 2017 (or, if the meeting is adjourned or postponed, no later than the commencement of the reconvened or resumed meeting) in any of the three ways described in paragraphs 10.2(a), 10.2(b) or 10.2(c) below. A proxy is not revoked by the principal attending and taking part in the meeting, unless the principal actually votes at the meeting on the resolution for which the proxy was proposed to be used. If you wish to appoint a second proxy, a second voting form should be used and you should clearly indicate on the second voting form that it is a second proxy and not a revocation of your first proxy. You can obtain a second voting form from the Central Share Registry. Replacement voting forms can also be obtained from the Central Share Registry.

If you appoint two proxies, each proxy should be appointed to represent a specified proportion of your voting rights. If you do not specify the proportions in the voting forms, each proxy may exercise half of your votes with any fractions of votes disregarded.

You should consider how you wish your proxy to vote. That is, whether you want your proxy to vote 'for' or 'against', or abstain from voting on, the Scheme Resolution, or whether to leave the decision to the proxy after he or she has considered the matters discussed at the meeting.

If you do not direct your proxy how to vote on an item of business, the proxy may vote, or abstain from voting, as he or she thinks fit. If you instruct your proxy to abstain from voting on an item of business, he or she is directed not to vote on your behalf, and the shares the subject of the proxy appointment will not be counted in computing the required majority.

If you return your voting form:

- without identifying a proxy on it, you will be taken to have appointed the chair of the meeting as your proxy to vote on your behalf; or
- with a proxy identified on it but your proxy does not attend the meeting, the chair of the meeting will act in place of your nominated proxy and vote in accordance with any directions on your voting form.

The chair of the meeting intends to vote all valid undirected proxies which nominate the chair in favour of the Scheme Resolution, in the absence of a Superior Proposal.

Proxies of eligible Central Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their name and address.

Your appointment of a proxy does not preclude you from attending in person, revoking the proxy and voting at the meeting.

Voting directly

You may vote directly on the Scheme Resolution without attending the meeting or appointing a proxy by completing the Scheme Voting Form.

Your direct vote does not preclude you from attending in person. However, unless you advise the Central Share Registry otherwise, your attendance will have the effect of revoking your direct vote.

Completing and returning the Scheme Voting Form

To appoint a proxy or to vote directly, you should complete and return the Scheme Voting Form that accompanied the Second Supplementary Scheme Booklet in accordance with the instructions on that form. You must deliver the signed and completed Scheme Voting Form to the Central Share Registry by 10.30am (AEST) on Tuesday, 27 June 2017 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the following ways:

a. **Online:**

- at www.centralpetroleumscheme.com.au by following the instructions on the website; or
- for Intermediary Online subscribers (Institutions/Custodians) by visiting www.intermediaryonline.com

b. **by post in the provided envelope to the Central Share Registry:**

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

c. **by fax to the Central Share Registry** on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

Voting forms received after this time will be invalid.

If a voting form is completed under power of attorney or other authority, the power of attorney or other authority, or a certified copy of the power of attorney or other authority, must accompany the completed voting form unless the power of attorney or other authority has previously been noted by the Central Share Registry.

If you hold Central Shares jointly with one or more other persons, in order for your direct vote or proxy appointment to be valid, each of you must sign the voting form.

10.3 Voting by attorney

You may appoint an attorney to attend and vote at the meeting on your behalf. Your attorney need not be another Central Shareholder. Each attorney will have the right to vote on the poll and also to speak at the meeting.

The power of attorney appointing your attorney to attend and vote at the meeting must be duly executed by you and specify your name, the company (that is, Central), and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

The power of attorney, or a certified copy of the power of attorney, should be lodged at the registration desk on the day of the meeting or with the Central Share Registry before 10.30am (AEST) on Tuesday, 27 June 2017 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the following ways:

a. **by post in the provided envelope to the Central Share Registry:**

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

b. **by fax to the Central Share Registry** on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

Attorneys of eligible Central Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their appointment, their name and address, and the name of their appointors.

Your appointment of an attorney does not preclude you from attending in person and voting at the meeting.

10.4 Voting by corporate representative

If you are a body corporate, you may appoint an individual to act as your body corporate representative. The appointment must comply with the requirements of section 250D of the Corporations Act, meaning that Central will require a certificate of appointment of body corporate representative to be executed by you in accordance with the Corporations Act. A form of certificate may be obtained from the Central Share Registry by calling 1300 650 871 (within Australia) or +61 3 9415 4278 (outside Australia). The certificate of appointment may set out restrictions on the representative's powers.

The certificate should be lodged at the registration desk on the day of the meeting or with the Central Share Registry before 10.30am (AEST) on Tuesday, 27 June 2017 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the following ways:

a. **by post in the provided envelope to the Central Share Registry:**

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

b. **by fax to the Central Share Registry** on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

If a certificate is completed under power of attorney or other authority, the power of attorney or other authority, or a certified copy of the power of attorney or other authority, must accompany the completed certificate unless the power of attorney or other authority has previously been noted by the Central Share Registry.

Body corporate representatives of eligible Central Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their appointment, their name and address and the name of their appointors.

ATTACHMENT C – EXCERPT FROM CENTRAL'S SUBMISSION TO THE GMRG

2 Pricing Principles

The GMRG has indicated Option 2b as their preferred pricing principle for binding arbitration. Option 2b is based on the actual cost of service, however, it is then supplemented by a broad spectrum of "other" pricing principles, many of which are vague and serve to protect the existing market power of pipeline owners. Central supports pricing principles that are fair for all parties consistent with a "competitive" market landscape. The often conflicting list of "other" pricing principles and requiring each individual arbitrator to determine how to carry out the assessment, however, will make the outcome of any arbitration highly uncertain and will ultimately be ineffective in achieving real economic reform of monopolistic pricing power is the genesis of these to "excessive returns".

The pricing principles outlined under Option 3b provide the only real pathway for binding arbitration to be both efficient for the parties involved and effective in actually constraining the monopolistic pricing power of pipeline owners. The pricing principle options, however, fail to adequately highlight the following two pipeline pricing practices that result in pipeline owners achieving clearly excessive returns from these low risk natural monopoly assets:

- a. Pipelines are almost always fully underwritten by gas suppliers and/or gas customers through foundation contracts. These foundation contracts ensure that a pipeline investment achieves a commercial rate of return and the investment is recovered within the foundation contract term (typically 15 years). Pipeline owners, however, are currently free to continue this initial tariff regime through the pipeline's economic life of 40–60 years which has the effect of increasing the entry rate of return for the pipeline owner by over 50%. Given the majority of pipelines on the east coast are mature (>15 years old), continuation of the foundation tariff regime in perpetuity allows for excessive risk-adjusted rates of return for pipeline owners to the detriment of an efficient domestic gas market.
- b. In addition to the foundation contract revenue, pipeline owners are unconstrained in pricing and generating additional revenue through ancillary services (e.g. backhaul, as available). These ancillary services are currently priced at what the market can bear, with additional revenue providing a windfall to pipeline owners over the asset's life with no material risk or additional investment required.

The above current pricing practices would not be available within a competitive market and are clearly the source of the excessive returns identified in both the ACCC Inquiry and the Examination.

It is therefore imperative that the pricing principles determine in advance the current capital base or residual investment (if any) for each pipeline as a cornerstone in calculating cost-of-service. This must be undertaken up-front for each pipeline by an independent party (i.e. the AER) with the resources and mandate to identify initial and subsequent pipeline capital investment, historical operating profits and appropriate risk-adjusted rates of returns since commissioning of the asset. This is essential for an arbitrator to effectively apply a set of cost-of-service pricing principles and for potential parties considering an arbitration process to have any clarity on potential arbitration outcomes.

If the pricing principles do not have an independent party like the AER determine in advance the current capital base or residual investment for each pipeline as a starting point for cost-of-service pricing, the arbitration framework will fail in achieving the economic reform in the pipeline sector that is critical to advancing the NGO.

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