Central Petroleum Limited - Letter to Shareholders

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Brisbane, Australia - Since the beginning of 2014, Central Petroleum Ltd. (ASX:CTP) (OTCMKTS:CPTLF) ("the Company" or "Central") has embarked on a strategy to capitalise on the rising domestic gas price in the eastern seaboard as a safe harbour from the then anticipated fall in crude price. An essential part of that strategy was to do everything possible to ensure that our Northern Territory gas fields were physically connected to the markets where the shortage was predicted. The basis of this strategy was recently endorsed in a speech (transcript attached) by Mr Rod Sims, the Chairman of the ACCC, where on 9 March this year he said, "There is an urgent need for both new and importantly more diverse sources of gas supply into the domestic market".

As part of our efforts Central offered between 20-25 PJ p.a. into the NEGI data room as gas available for the pipeline from Mereenie, Palm Valley and Dingo. At the time Central had assumed that the Northern Gas Pipeline's ("NGP") construction would depend on those volumes being contractually committed, thus creating a sense of urgency on gas customers and pipeline owners to commit in the early part of this year. It turned out that the winning tender had made the decision to go ahead with the construction of the NGP regardless of our commitment with the only risk mitigation being the option to downsize the interconnect to 12 inches, which they have done. After subtracting the gas committed into the interconnect by Power and Water Corporation, there remains roughly 22 PJ p.a. capacity, before upgrade (e.g. compression), available to contract.

Recent political debate about a moratorium being imposed on CSG and shale gas exploration in the NT makes it unlikely that alternative gas suppliers will emerge to fill this uncontracted capacity by the time the interconnect is commissioned in late 2018.

This turn of events have given the Company the advantage of time to ensure the value of its current uncontracted reserves are optimised. In addition, the Company takes the view that domestic gas prices will only tighten further as the remaining LNG trains are commissioned and the Brent Crude Index (a prime driver of LNG pricing) has risen 50% since 20 January 2016. Whilst Central aims to enter into a Gas Sales Agreement this fiscal year if justified by the economics (including transportation costs), it may consider delaying the sale of a portion of its gas to a later date (but not the delivery) to take further advantage of a tightening market. We have already split the reserve upgrade programme into three stages with the more capital intensive Stage 3 being able to be spent closer to the date of delivery. This is made possible by the fact that the Mereenie field's existing field development has close to 15 PJ of spare capacity requiring minimal capital spend for de-mothballing and maintenance aimed at increasing reliability.

The commitment of the NGP developers enables us to confirm the timing of our cash flows and also delay the capital spending for delivery. These recent development mean Central remains well positioned to maximise existing fields' shareholder value whilst providing what ACCC Chairman Rod Sims called "new and importantly more diverse sources of gas supply into the domestic market". It is important to understand that there has been no change to the timing of our cash flows from the NGP, just a delay in the expenditure of capital.

Without even touching on our vast appraisal and exploration potential (the development of which can be timed to respond to a critical shortage in the domestic gas market), the future for Central looks bright.

Yours faithfully

Richard Cottee
Managing Director and Chief Executive Officer

To read the "Observations on the east Australian gas market", please visit:
http://abnnewswire.net/lnk/72YSN56P

About Central Petroleum Limited:

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

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