

# Central Petroleum Limited: CEO Letter To Shareholders

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Brisbane, Australia - Dear Shareholders, As you are no doubt aware, global markets have fallen significantly in recent weeks reflecting continued economic uncertainty around the spread of the Covid-19 coronavirus. More recently this week we have seen a further and dramatic fall in the oil price which appears to be driven by changing supply strategies from OPEC producers.

I want to assure you that the Board and Management of [Central Petroleum Ltd.](#) (ASX:CTP) ("Company" or "Central") have worked hard over recent years to build a strong and resilient base which allows us to better navigate these volatile market conditions. I'd like to highlight a few reasons why this is the case:

**Small direct exposure to global oil prices:** Following commencement of the Northern Gas Pipeline last year, Central now generates almost all of its revenue from domestic gas sales. For the six months to 31 December 2019, oil contributed less than 11% to our total revenues. Additionally, none of our domestic gas sales are linked to oil prices or related indices.

**Limited exposure to lower spot gas prices:** The domestic spot gas market is influenced by global oil prices, notably through the global LNG market which tends to be highly correlated through long-term oil-linked contracts. Not surprisingly, the domestic spot gas market has been very weak since the start of the year and will likely remain weak for the near future given the recent fall in oil prices.

Central mitigates its exposure to volatility in domestic spot gas prices through the use of long-term, fixed price contracts with take-or-pay provisions. This essentially locks in the price for a minimum volume of sales, creating a floor for our cash flow. Currently, Central has about 10 PJ pa of its gas production contracted, with about 85% of those volumes subject to take-or-pay provisions. The remaining terms for these contracts are generally in the order of 3 to 10 years. This provides a solid floor for our cash flow, even in times of significant market volatility.

**Recent mitigations:** We have recently implemented the following actions which will assist the Company in navigating the current choppy market conditions:

- Successfully executed and commenced a major new fixed-price gas sales agreement with AGL for firm gas production from 2020 through 2022;
- Extended our finance facility by 12 months to September 2021, significantly reducing financing risk. Importantly, our extended debt facility is very efficiently priced and tied to the BBSY rate so recent falls in interest rates will translate into lower interest costs; and
- Accelerated debt repayments, facilitating debt reduction from \$94 million in early 2019 to \$72 million currently and \$62 million by September 2021. This debt reduction results in significantly lower interest costs.

Since commissioning additional production capacity in early 2019, Central has focussed on cost-efficient operations and we continue with cost-reduction initiatives to minimise overhead and operating costs across the business.

**Impact on growth strategies:** Our growth strategy is both bold and significant, with a CY2020 exploration programme and the Range Gas Project progressing toward a final investment decision. In addition, we are continuing to push hard for a forward plan to complete the Dukas exploration programme in 2021.

The funding plan for these activities continues to be primarily through free-cash flow and a farmout of certain assets. We remain committed to implementing our growth strategy, however we have the flexibility to adjust the timing of these activities, if necessary, to ride out an extended downturn in energy market conditions.

In summary, we have built a strong and resilient base. Our Board and management team have experienced market downturns before and will draw on their collective experience to guide Central through the current turbulence. I do not believe that the current market dynamics are sustainable over the long-term, and with prudent financial management we intend to balance challenging market conditions with our significant growth opportunities.

I appreciate your continued support and remain confident in realising the potential that our investors have long recognised in Central.

About Central Petroleum Limited:

[Central Petroleum Ltd.](#) (ASX:CTP) is an oil and gas explorer and producer listed on the Australian Securities Exchange focused on supplying the domestic gas market. Central is advancing several separate projects across what is regarded as the biggest package of proven and prospective oil and gas acreage across central Australia. This spread of assets gives Central multiple options for growth and development. 88% of this land being gas prone has led to the Company's focus on becoming a major domestic gas producer.

Source:

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