central PETROLEUM LIMITED
ABN 72 083 254 308

23 May 2013

MANAGING DIRECTOR'S MARKET UPDATE

It is now more than a year since Central Petroleum Ltd (ASX: CTP) (**"Central"** or **"Company"**) began a process of change which has been dramatic, disruptive but ultimately highly successful in redirecting the Company's focus and its fortunes. As the incoming MD & CEO, I consider it is important that shareholders remember the crisis the Company faced so that they can appreciate what the Company has achieved and where we expect to be in the next 12 months.

WHERE WAS THE COMPANY?

During the calendar 2011 the Company shares traded on at a VWAP of 6.1 cents which is less than half the VWAP of the last 12 months. The underlying reason was that although the Company had substantial land assets, it also had commensurate exploration expenses which it could not meet. In the absence of any significant revenue sources the investor markets anticipated that Central would again have to raise capital to fund the exploration required to maintain its permit rights and to keep the Company solvent.

While the Surprise discovery was great news for the Company's longer term prospects, it also increased the capital required to explore and develop the Surprise prospect. The Share Purchase Plan that followed was only supported by 9% of shareholders, despite being extended four times. The Company faced a serious financial crisis. The former Managing Director was terminated as an executive, and subsequently removed as a director by a 75% vote by the shareholders with nearly 50% voting. Petroleum Nominees Pty Ltd had bought close to 5% of the issued stock and, through requisitioning of an EGM, was seeking to replace the whole board.

The Company was facing $30 million in expenditure commitments on its petroleum permits before their respective renewals in the next 18 months and nearly $10 million commitments on its coal assets in the same period. It had little data to guide the efficient and effective development of its Surprise field. The Company had 19 full time employees to advance the exploration of 58 million acres.

The Company's focus was diffused and it was not clear whether Central was a CSG company, a UCG company, a helium company, a coal company or an oil & gas company, let alone what proportion of its scarce human and capital resources it would be allocating to each of those activities to support development and generate revenue.

WHAT THE COMPANY HAS ACHIEVED?

Since August last year Central has diligently addressed the complex set of issues it faced and has now created a solid platform upon which to commercialise its acreage.

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The first step was to provide clarity of purpose so we can focus the Company effort. It should be clear now to all stakeholders that Central is an oil and gas company, pure and simple, with an increased focus on the large potential in the Horn Valley Siltstone and the Arthur Creek Shale. The Amadeus Basin is a proven hydrocarbon province blessed with existing infrastructure. The petroleum system around Mereenie and Palm Valley appears likely to extend to the Surprise area given the analogous quality of the respective crude.

Most importantly, the farmouts to Santos and Total announced in the second half of last year provide $90 million for Stage 1 Development capital, of which only $12 million is to be sourced from Central. If both farmouts proceed to Stage 3 over the next four years, on these areas alone nearly double Central's market capitalisation will have been spent. To place these deals in context, $78 million will be spent on these areas over the next 12 months without a single share being issued to cover those exploration costs. By comparison, to cover the past $93 million exploration expenditure (Central's share being $85 million) prior to January 2012 over 1.3billion shares were issued.

The Board has been restructured to such an extent that only one current director was on the board at the time when the former Managing Director's appointment was terminated. In addition to the Board changes, management has also been reinvigorated. Since joining as Managing Director I've appointed two former executives who were an integral part of the QGC success story. To have people like Mike Herrington, our Chief Operating Officer, and Leon Devaney, our Chief Commercial Officer, experienced in exploration and commercialisation of oil and gas, as well as the trials and tribulations which occur in growing a small cap company into an ASX Top 50 company is very reassuring. With an increased focus on exploration now financially viable as a result of the farmout deals, it was timely that we could also attract such experienced and well-qualified geo-technical people as Mike Bucknill and Dr. Robbert Willink an early payback on our move to Brisbane.

We have been concentrating on de-risking the Surprise discovery, processing and interpreting the 3D Seismic shot over the area this time last year, and analysing the results of the six-month Extended Production Test. This work culminated in the construction of a static reservoir model leading to the certification of reserves and the next step towards commercialisation.

The refocusing of the Company led to a decision to exit the coal permits. With the coal markets being in a cyclical downturn it became difficult to justify the financial costs associated (nearly $10 million) with holding the tenements. Both the human resource costs and the financial burden of holding the permits were far too great for the Company at this stage of its development, and the decision was taken that all of our people and money should be focused on our exciting future in the oil and gas permits. This was clearly in the best interests of shareholders.

It is more than 14 months since this Company embarked on a capital raising (which in the past came on average once every 7 months). This is already the longest period in the Company's history between capital raisings. This has been achieved through a reduction of our net cash-burn rate from a little over $1 million per month to a little over $1 million a quarter (around $400k per month) despite around one-third increase in staff numbers. The efficiencies were achieved through a 40% reduction in underlying costs coupled with the focus on joint-venture activities, particularly where we are the Operator.

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WHERE WE EXPECT TO BE IN 12 MONTHS

We aim to be in production at Surprise on the western side of the fault this calendar year. With the drilling campaign on our acreage by 30 June 2014 we aim to have drilled on a least 3 different locations, one at Surprise East (with drilling scheduled to commence in April next year), four core holes in the Southern Georgina Basin and one well at Mt Kitty (scheduled in January 2014). If this can be achieved a record 6 or 7 holes will be drilled in the next 12 months.

In addition, over 2000km of seismic will have been shot and processed hopefully uncovering numerous attractive leads and prospects. The production at Surprise #1 should cover our ongoing cash requirements leading to a degree of financial independence for the first time.

As a result of this commercially focused activity, Central should have achieved the solid foundations necessary for it to become a new Australian force in the onshore conventional and unconventional petroleum industry.

Richard Cottee

Managing Director and Chief Executive Officer

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