

16 May 2017

Chairman's Letter to Shareholders

Dear Shareholders

Many of you will be aware that two groups of shareholders are now proposing the appointment of alternate teams of non-executive directors. As your Chairman I felt compelled to communicate with all shareholders why the board and I believe these current developments are not in the best interests of shareholders and highly disruptive to your Company.

Your board will continue to act in your best interests applying sound corporate governance practice should the Scheme Resolution not be passed. Consideration of alternate board teams now lacks planning, is reactive and premature in the extreme. The groups proposing alternate directors have the annual general meeting in November (in the absence of Scheme implementation) being the appropriate meeting at which the shareholders may vote on the composition of the board in an orderly and cost-effective manner.

Importantly at a time when shareholders are being asked to consider an offer for all their shares in Central neither of the two groups has proposed a superior offer. Further, they have not demonstrated why the information set out in the Scheme Booklet does not justify the recommendation of your board to accept the offer from Macquarie MPVD Pty Ltd in the absence of a superior offer.

To varying degrees the two groups have maintained support for the management of Central and its strategic direction. I cannot be the only shareholder who would question why you would replace the board that has delivered the pivot to gas strategy and the motivated management team delivering on that strategy if you support the current direction of Central. At all times your board has acted in the best interests of all shareholders including presenting the Macquarie MPVD Pty Ltd offer to you with our recommendation. To not have done this would have been a clear breach of our obligations to you.

Both groups have questioned whether the Scheme delivers a sufficient price for the current value of the Company. In addition assertions have been made that should the board be changed then it could revise the company's engagement with Macquarie Group and obtain the equity capital deemed absolutely necessary whilst minimising existing shareholder dilution.

The Scheme Booklet contains extensive information on the Scheme and within it consideration of each of these issues including why your directors arrived at their recommendation. I encourage you to review the Scheme Booklet. However, in response to the assertions above I emphasise the following.

Value

I appreciate that any assessment of value has a subjective element. However, all the evidence reviewed by your directors and set out in the Scheme Booklet supports that the offer exceeds the current value of Central. The key points are:

1. The offer delivers unequivocal cash consideration of 20 cents per share and an interest in the potential for success in certain of Central's current short term exploration targets. The achievement of any value beyond this in the future has many risks and uncertainties all of which need to be overcome, not least of which include development of significant additional reserves at Mereenie, resolution of the pipeline tariff regime to lower transport costs, completion of the Northern Gas Pipeline (NGP) on time with sufficient available pipeline capacity and securing contracts with customers at acceptable prices. Furthermore, Central will need to raise a significant amount of capital to increase its reserves, be in a position to take advantage of the opportunity presented by the potential development of NGP and secure contracts.
2. The Independent Expert, supported by its Technical Expert, identified that the value of Central's foundation exploration acreage has significantly declined in the current oil price environment and concluded the offer exceeded the top end of their value range.
3. The offer is a significant premium to the pre-offer trading prices, including 69% on the last trading day price of 12.5c prior to receipt of the initial proposal from MQG (based on the midpoint of the Scheme Consideration range of 21.2 cents).
4. Extensive engagement with many parties though the period of November 2016 to March 2017 identified no superior offer.

The offer compared with any considered and objective assessment of the current value of Central shares demanded that your Directors put the offer to shareholders.

We respect that shareholders may have a view that Central's potential future value could exceed the current offer but I must emphasise that realisation of any such value is highly uncertain.

Availability of capital

The Scheme Booklet identifies that for Central to exploit the East Coast gas market opportunity capital expenditure of \$42 million will be required. This is consistent with the forecast of the management team. Separately, the Independent Technical Expert also identified that to realise the value in its asset portfolio, the minimum capital expenditure required by Central to increase production to levels required to meaningfully access the East Coast gas market is estimated to be approximately \$40.6 million for Mereenie, Palm Valley and Dingo. It is reasonable to expect that a materially lower capital spend would most probably reduce the potential future value of Central.

Central is currently highly geared with limited additional borrowing capacity. Central's historical share price performance provides little room for confidence that an equity raising could be achieved, other than at a price that would be highly dilutive to current Central shareholders. Further the Scheme Booklet identifies that it is reasonable to expect that should the "no" vote prevail at the Scheme Meeting the share price of Central will likely fall, as has been

experienced in recent trading following notification to the ASX of the OptionCo purported requisition.

There is a circumstance where Central shareholders would not experience significant dilution and that is where all shareholders participate in a pro rata rights issue. To be certain of raising capital such an issue would need to be underwritten. Hence, in considering any proposed future capital raising alternatives a reasonable question to ask is: “*are you asking shareholders to fully participate in a future rights issue?*”. If so, any shareholder who did not participate will see dilution in the value of their interest. If there is a material non-participation then effective control of Central could pass to the underwriters or sub-underwriters without payment of a control premium. In assessing the Scheme Central shareholders therefore should also assess this risk and their own preparedness to participate in a future capital raising to prevent dilution, and the likelihood that other shareholders would also.

Macquarie Group

The Macquarie Group currently have several points of engagement with Central beyond its shareholding. Macquarie Group is currently a lender, joint venture partner and has prepaid Central for a future volume of gas sales.

I cannot and do not comment on behalf of Macquarie Group. However, Central's arrangements with Macquarie Group are subject to extensive legal agreements with which Central is obliged to comply and cannot unilaterally change. It is difficult to imagine how Central could achieve a material change to these agreements without incurring some additional cost.

Summary

Your directors have a duty to consider any superior offer to that currently considered by the Scheme. We would welcome superior offers since that would be in the best interests of all shareholders. However, to date we have received no such offer. Our work over the months since the initial proposal by Macquarie identified neither a higher offer price nor certainty on the availability of capital, other than in a highly dilutive way.

The work that the Board and management have previously undertaken as set out in the Scheme Booklet has driven our positive recommendation to shareholders, our desire for all shareholders to be fully informed and to provide shareholders with the opportunity to vote on the Macquarie offer. It is beyond me how any director could act in your best interests and not do the same. I therefore encourage you to use the Scheme Booklet as your most valuable source of information in assessing the Scheme.

Yours sincerely
Central Petroleum Limited



Robert Hubbard
Chairman

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