

ASX ANNOUNCEMENT

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20 January 2011

To: The Manager, Company Announcements, ASX Limited

LETTER TO SHAREHOLDERS AND OPTION HOLDERS

We attach a letter from the Company's Chairman which will be sent to all shareholders and option holders.



John Heugh
Managing Director
Central Petroleum Limited

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COAL
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ordiv
PETROLEUM
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frontier
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helium
AUSTRALIA
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Dear Shareholder / Option holder,

As we enter the New Year, it is timely to take stock of what has been achieved by Central Petroleum in 2010 and to set out the planning for a busy 2011.

Your Company has now entered a very promising stage of its exploration programs and 2011 begins with the knowledge that we have a wide range of opportunities at our disposal.

The outlook is very encouraging, with work over the past year having produced several significant discoveries in the oil, gas, helium and coal sectors and thus indicating the way towards possible avenues for development and asset monetisation.

Let me summarise as follows.

Surprise-1 and Johnstone West-1.

Oil shows have been found as the Surprise-1 well has progressed to within 500 m above its target depth. Drilling is now in recess following the delay in operations arising from a drilling rig incident and in anticipation of the Northern Territory's predicted heavy monsoon season rainfall.

Before the suspension of operations, the drilling had reached the interpreted Lower Stairway Sandstone, encountering promising oil shows particularly in fractured sandstones which were cored. The main target objective, the Pacoota Sandstone, is yet to be drilled.

The core successfully retrieved from 2546.2 – 2554.4 m RT (depth below rotary table) is currently being analysed to determine the relevant properties particularly porosity and permeability. Major fractures were observed in the zones 2547 – 2550 m and 2551 – 2554 m RT, the uppermost zone showing an abundance of light brown free oil, the lower containing black sticky oil.

Significantly, the core ending in sandstone exhibited approximately 100% fluorescence attributed to the presence of oil, with the base of the Lower Stairway Sandstone yet to be reached.

The rig and associated equipment together with service companies were successfully demobilised from site.

Future planning entails the re-entry of the well, coring of the Horn Valley Siltstone (a potential shale gas/shale oil target of wide spread distribution in the Amadeus Basin) and deepening through the main Pacoota Sandstone objective to at least the top of the Neoproterozoic section. Depending on results, additional cores will be acquired for detailed analysis.



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The Johnstone West-1 well, while unsuccessful in flowing oil or gas to surface encountered a significant number of strong oil shows, and testing has indicated that the well was sited over an oil/water transition zone. The well demonstrated evidence for the existence of a new petroleum province some 200 km west of the producing Mereenie Field, and the structure will be remapped and re-evaluated once the as yet incomplete data set from Surprise-1 is to hand.

Ooraminna-2

The well encountered gas in low permeability sandstone, and on test flowed gas to surface. However, in the absence of the anticipated natural fracturing at the well location, the flow rate was sub-economic.

As part of the post drilling follow up, a geomechanical model for the Ooraminna structure will be derived including a critical stress fracture analysis to allow permeability modelling and prediction (Geomechanics International).

Seismic Acquisition and Processing

Seismic acquisition over permits EP 105 and EP 107, interrupted by heavy rains in 2010, is timed to re-commence during February 2011, while review of recent and older vintage data continues.

A program of uphole velocity data acquisition in the Pedirka Basin was also halted by rain, but processing of the newly acquired seismic data has continued.

Following the success of initial testing, the previous seismic data over the Mt. Kitty condensate, gas and helium prospect is being reprocessed to better define the subsalt Heavitree Formation objective.

The sub-salt imaging problem, a consequence of the complex structural evolution of the Amadeus Basin and applying in principle to all pre-salt prospects will be further investigated using a Structural Depth Imaging (SDI) technique which specifically addresses velocity model building and imaging in the depth domain.

Petroleum Drilling 2011

Conspicuous structural features observed on the newly acquired seismic lines in the Pedirka Basin have been interpreted as Devonian reefal complexes, and preliminary mapping is indicating a strike extent of over 100 km. This is a most significant development since such reefal complexes have proven to be highly prolific producers in petroleum basins elsewhere.

A number of younger Permian to Jurassic targets are also being mapped as oil prospects, and the expectation is that a number of these will be matured to drillable status and available when the Surprise-1 deepening campaign is undertaken.

Helium and Gas 2011

In addition to the above program targeting oil, the interpreted 400 km² Mt Kitty gas, helium and condensate prospect within EP 125 in the Amadeus Basin is due to be drilled as a commitment well by December 2011.

In this context, the Company is critically assessing the performance of the drilling operations undertaken in 2010 and is reviewing its approach to contracting and drilling generally.

Coal Drilling 2011

Just before Christmas 2010, Central completed the first of four stratigraphic wells which were proposed in the latest coal exploration phase in the Permian Pedirka Basin.

The well SHEL27109-2 was drilled to a total depth of 1209 m before the drilling contractor stood down for the Christmas/New Year break, and intersected approximately 33 m of net coal seams greater than 1 m in thickness.

With the growing world importance of secure coal supplies, this is obviously an energy source that commands increasing attention and value. Central Petroleum consequently believes it prudent to maintain a degree of emphasis on coal exploration, and has recently been granted three new Northern Territory mineral tenements EL's 28095, 28096 and 28097.

It is possible that the program may be redefined to include drilling in these tenements which are anticipated to contain coal deposits at a shallower depth than that so far encountered.

After the end year recess, the drilling recommenced on 9 January 2011 with well SHEL27109-1, prognosed to reach the base of the Purni Formation at approximately 1040 m below surface.

This particular program was designed with the objective to better define the estimated JORC Exploration Target in the Pedirka Basin and to provide additional data to prospective joint venture partners.

Partially dependant on the results of the initial four well program and possible joint venture discussions, a much more detailed drilling program is contemplated later in 2011.

Shale Gas and Shale Oil

A comprehensive study in the Amadeus Basin by DSWPET Pty Ltd and MBA Petroleum Consultants on potentially *recoverable* resources of unconventional tight sandstone and shale gas and oil in the Lower Larapinta Group (tighter elements of the Stairway and Pacoota Sandstones and the Horn Valley Siltstone) is nearing completion.

A previous in-house study by Central concluded that UGIIP and UOIIP volumes of 10 to 90 TCFG and 1 to 10 billion bbls oil respectively ("low" to "high" estimates SPE, Undiscovered Gas and Undiscovered Oil Initially In Place) might be present.

A second similar study by DSWPET Pty Ltd on potentially *recoverable* unconventional resources in Central's southern Georgina Basin permit application areas is also under way. These ATP's 909, 911 and 912 are anticipated to be granted by mid 2011, and cover approximately 17,000 km² bordering on permits held by Baraka Petroleum.

Joint Ventures

Central has actively targeted major petroleum and / or coal enterprises of China to engage in the exploration and development of its 270,000 km² of petroleum and mineral leases and applications in central Australia.

Confidential discussions are under way with two of these corporations but no predictions can be made as to the success or timing of any agreements which may eventuate.

The Company also has facilitated contact with large Indian entities in a deliberate strategic move away from joint ventures with smaller companies where in several cases lack of access to funding has proved to be non-productive.

While the Company believes that it has sufficient expertise and will have access to funding to explore successfully for conventionally reservoir hydrocarbons and helium, it is fully understood that the participation of major players is an essential requirement if the exploration and economic development of very large scale shale oil/gas, coal mining or various coal conversion projects is to eventuate.

Such projects require significant exploration and development funding over relatively extended periods without cash flow, whereas in contrast, Central believes it is in a position to place any successful conventional oil discovery into production within 12 to 18 months.

Acquisitions

The Company remains committed to reviewing new production or development opportunities in a jurisdiction of appropriately acceptable sovereign risk which are value accretive and may have potential to augment funding for exploration in central Australia.

Funding

At the present time the Company anticipates that it will have close to \$10 million in uncommitted banked funds once all outstanding invoices from the recent drilling campaign are finalised.

The Company continues to be well supported by its corporate advisors, Patersons Securities Limited but clearly, a reliance on equity capital alone with its resulting dilution is not desirable. It is Central's aim to alleviate such heavy reliance on equity capital by raising capital for future exploration via new joint ventures, farmouts and cash flow from assets yet to be acquired, although given a commercial oil discovery this situation would clearly be subject to review.

Project Research and Evaluations

As previously stated, your Company continues to view the coal discoveries in the Pedirka Basin as a significant asset, and will continue with assessments of the various possibilities for monetisation including as briefly set out as follows:

- Firstly, the pre-feasibility examination of potential development options via Coal to Liquids (CTL) technology producing liquid transport fuels, wax, naphtha and other value added Fischer-Tropsch products through gasification of coal to synthetic natural gas (SNG). The study will also include reference to the development of Carbon Capture and Sequestration (CCS) technology suitable for Central Australia and power co-generation from waste heat and off-gas produced during the conversion processes (Foster Wheeler, Seddon and Associates and METTS), and
- Secondly, for mining and export, a scoping pre-feasibility report on the production of a stable beneficiated export coal product suitable for use in slagging gasifiers and fluidized bed combustor boiler systems.

Additional to coal specific research, the Company will continue to expand its evaluation of value accretive processes for gas, inclusive of GTL, LNG and other products such as methanol and urea and co-generation of power for various purposes.

In conclusion, I have attempted to illustrate the opportunities and tasks ahead of all of us, and acknowledge the challenges presented.

We value the support shareholders have shown Central Petroleum during 2010, and the Board is looking forward to greater success during 2011.

Yours sincerely
Central Petroleum Limited

A handwritten signature in black ink, appearing to read 'H. Askin', followed by a long, sweeping horizontal line extending to the right.

Dr. Henry J. Askin
Chairman

Competent Persons Statement

Al Maynard & Associates

Information in this announcement or attached report or notification which may relate to Exploration Results of coal tonnages in the Pedirka Basin is based on information compiled by Mr Allen Maynard, who is a Member of the Australian Institute of Geosciences ("AIG") and a Corporate Member of the Australasian Institute of Mining & Metallurgy ("AusIMM") and an independent consultant to the Company. Mr Maynard is the principal of Al Maynard & Associates Pty Ltd and has over 30 years of exploration and mining experience in a variety of mineral deposit styles. Mr Maynard has sufficient experience which is relevant to the styles of mineralisation and types of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Maynard consents to inclusion in this Report or announcement of the matters based on his information in the form and context in which it appears.

Mulready Consulting Services

The Mulready Consulting Services Report on UCG and CSG which may be referred to in this report or announcement or notification was prepared by their Associate Mr Roger Meaney, who holds a BSc (Hons) from Latrobe University and has over 30 years experience in the petroleum exploration and production industry with 8 years experience in the field of Coal Seam Gas.

General Disclaimer and explanation of terms

Potential volumetrics of gas or oil may be categorised as Undiscovered Gas or Oil Initially In Place (UGIIP or UOIIP) or Prospective Recoverable Oil or Gas in accordance with AAPG/SPE guidelines. Since oil via Gas to Liquids Processes (GTL) volumetrics may be derived from gas estimates the corresponding categorisation applies. Unless otherwise annotated any potential oil, gas or helium UGIIP or UOIIP figures are at "high" estimate in accordance with the guidelines of the Society of Petroleum Engineers (SPE) as preferred by the ASX Limited but the ASX Limited takes no responsibility for such quoted figures.

As new information comes to hand from data processing and new drilling and seismic information, preliminary results may be modified. Resources estimates, assessments of exploration results and other opinions expressed by CTP in this announcement or report have not been reviewed by relevant Joint Venture partners. Therefore those resource estimates, assessments of exploration results and opinions represent the views of Central only. Exploration programmes which may be referred to in this announcement or report have not been necessarily been approved by relevant Joint Venture partners and accordingly constitute a proposal only unless and until approved. All exploration is subject to contingent factors including but not limited to weather, availability of crews and equipment, funding, access rights and joint venture relationships.