

Southern Pacific Petroleum N.L.
ABN 36 008 460 368
(Receivers and Managers appointed)

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Dear Shareholders

Yesterday, the Receivers and Managers of the Company announced the completion of the sale of almost all of the Company's assets to Queensland Energy Resources Limited ("Queensland Energy"), a company associated with Sandefer Capital Partners ("Sandefer") of USA, at a price which is unlikely to be sufficient to discharge the secured creditor (Sandefer Koala Partners) in full.

I am therefore now writing this letter to shareholders, not only to express my very great regret that the Company's principal assets have been sold off at a price which I believe we all feel grossly underestimates their intrinsic value but also, in response to a number of shareholders' enquiries, to outline the circumstances leading up to the appointment of the Receivers, the sale of the assets and the subsequent appointment of Administrators. In writing this letter, I must point out that, although the Company is now under the control of the Administrators, the summary and views contained herein are those of myself and the other Directors and does not constitute a Notice from the Administrators.

The attached note summarises various significant periods in the Company's history, culminating in December of last year when, in the absence of the Company being able to demonstrate access to necessary future funding, Sandefer put the Company into Receivership. As the note summarises, the commercial development of the Company's assets has required the continuing injection of substantial funds and, notwithstanding world-wide searches for industry partners and/or financial investors to provide such funding, the only financing available has come from a group who has now been able to take full control of the Company's principal assets.

The loss to the Company's shareholders and of Australian ownership of these nationally significant oil shale projects is greatly regretted by all those many individuals who have been associated with the Company and have made extraordinary efforts over the past 30 years to bring this industry to the brink of fruition.

Yours sincerely

Campbell Anderson
Chairman

SOUTHERN PACIFIC PETROLEUM NL ("SPP") SUMMARY OF EVENTS LEADING TO RECEIVERS SALE OF ASSETS

Shale Oil Projects – Huge Capital Requirements

- The Company's Queensland shale oil tenements, with approximately 49 billion tonnes of oil shale resource, contain an in situ resource of approximately 20 billion barrels of oil. The unlocking of these resources and the production of oil in commercial quantities has always been recognised as being a huge project, requiring vast capital expenditure, far beyond the likely financial resources of SPP.
- 25 years ago the Company and its twin, Central Pacific Minerals ("CPM") entered into a joint venture with Esso to develop the Rundle deposit, thus attracting considerable publicity and investor attention for the Company, CPM and their potential shale oil projects.
- Later, in a period of falling world oil prices and Esso's decision to withdraw from the shale oil industry in USA, Esso announced a deferral of the Rundle project, leading to both loss of market credibility and a collapse of the Company's and CPM's share prices.
- The Company then undertook a worldwide search for a joint venture partner to replace Esso and for the technology to develop the Stuart deposit. The Alberta Taciuk Processor ("ATP") was identified as the best available technology and successful pilot tests were completed in Canada.

Suncor Joint Venture

- In 1997, Suncor Energy Inc ("Suncor"), a major Canadian oil producer with significant oil sands experience, entered into a joint venture with SPP and CPM for the development of the Stuart deposit, with Suncor providing the majority of the capital required and undertaking the management of the joint venture project.
- The joint venture involved the construction of the Stage 1 development plant at an estimated cost of A\$240 million, designed to produce 4,500 barrels of oil per stream day. It was never intended that the Stage 1 plant be a commercially profitable operation, with its primary purpose being to test the ATP technology as a platform for the larger Stage 2 plant, which, together with an approved Environmental Impact Statement, would then form the basis for future commercial operations. As an incentive for the research and development program being undertaken, the Company was able to access substantial relief from Federal Government excise on gasoline produced by the Stage 1 plant.
- The basic construction of the plant was completed on time and on budget in 1999. From the outset the start-up experienced teething difficulties, particularly emissions and odour problems. The identification and addressing of these problems entailed extensive shutdowns throughout 1999 and 2000, resulting in production of only 35,000 barrels of oil during this period. This led to increased costs, loss of revenue and market speculation as to the commercial viability of the Company's project.
- The project's operational problems were compounded by the campaign mounted by Greenpeace to close down the project. Substantial interference from Greenpeace was encountered at the production, shipping and marketing levels.

Suncor Withdrawal

- In early 2001, without prior warning, Suncor notified the Company that it was withdrawing from the Stuart joint venture. It was and remains the Company's understanding that Suncor had been experiencing very substantial problems with its major Canadian oil sands project as that project was significantly behind schedule and substantially over budget.
- Added impetus to Suncor's withdrawal was pressure being brought to bear by Greenpeace on Suncor in Canada, as well as in Australia.
- Suncor's withdrawal from the joint venture at short notice placed significant burdens on the Company, in that the Company had to assume responsibility for 100% of the capital and operating costs of the Stuart project, as well as to taking over the management role previously fulfilled by Suncor.
- Suncor's withdrawal from the project had a very significant adverse impact on the market's perception of the viability of the project and thus on the Company's share price and its consequent ability to fund Stage 1 Project costs via equity capital.

Post Suncor Period

- After taking over the management of the project from Suncor, the Company achieved significant results in improving both plant performance and availability for the Stuart project. In 2001, the Company increased oil production to 233,000 barrels and the Company's personnel quickly acquired experience in the operation of the plant.
- The Company intensified its worldwide search for joint venture partners, recognising that the Company did not have the financial resources to carry out the Stuart project on its own. A number of international companies showed serious interest, including undertaking due diligence, but none of them were prepared to commit to a joint venture for a number of reasons, including uncertainty over the Stage 2 EIS approval. At the same time the Company also pursued a worldwide fundraising search, which succeeded in raising US\$17.5 million through loans secured by guarantees provided by a number of major US based shareholders. Whilst this funding turned out to be insufficient to enable the Company to bring the Stage 1 plant to operational break-even and to fund the preliminary development work on Stage 2, it nevertheless enabled the Company to continue its program of improving the performance and availability of the Stage 1 plant and progressing the EIS for Stage 2.
- In order to simplify the investment community's understanding of the Company and its projects and on the advice of the Company's financial advisers, in early 2002 a merger of SPP and CPM was undertaken by Schemes of Arrangement, which were approved by the Shareholders of both companies and the Court.
- Throughout this period, Greenpeace continued its activities against the Company and its products, including a boycott of Caltex service stations because Caltex was refining and marketing the naphtha produced by the Stuart project. Further, political pressure from some sectors of the community in the area surrounding the Stuart project obliged the Company to undertake more detailed studies on Stage 1. This was a significant factor contributing to the delays being experienced in progressing the EIS for Stage 2 through the regulatory process.
- As a consequence of the Greenpeace boycott of Caltex service stations, Caltex declined to refine naphtha produced from the Stuart project. Shell and BP also declined to refine the Company's products, leaving Exxon-Mobil as the only refiner in Australia willing to take product from the Company. This resulted in the Company having to sell all its naphtha to Exxon-Mobil at heavily discounted prices, thus reducing the Company's revenue and increasing the production level necessary to achieve operational break-even.

2002 Rights Issue

- Following the Company's inability to raise sufficient equity capital through private placements, in late 2002 the Company announced a rights issue to its shareholders, with a view to raising up to \$40 million of capital. The Company was unable to have the rights issue underwritten and in fixing the terms and timing of the rights issue, the Company acted on the advice of its financial advisers.
- The rights issue only succeeded in raising little more than \$6.5 million. This was supplemented by a further \$3.7 million private placement, with the total funds raised barely exceeding the required minimum subscription amount of \$10 million. The Company was extremely disappointed in the lack of support from shareholders and the

market reacted to this lack of support with the share price dropping below the rights issue price.

- The Company recognised that there was an urgent need for substantial further funds to continue the Company's operations and, notwithstanding the disappointing acceptance level of the rights issue, renewed its efforts to find private investors willing to back the project.
- Whilst 2002 was not a successful year for the Company in terms of raising equity capital, nevertheless the operational performance continued to improve in terms of oil production (324,000 barrels) and plant availability (up from 26% to 41%). Furthermore, although operational break-even had still not been achieved, net product sales had increased from \$3 million to \$23 million.

The Sandefer Transaction

- The only source of investment funds that the Company and its financial advisers were able to identify after all their searches was from Sandefer. Accordingly, the Company entered into negotiations with that group for the provision of up to \$51 million of new capital in 3 tranches, being an initial investment of \$34 million, with tranche 2 of \$8.5 million being conditional on approval of the Stage 2 EIS, independent verification that Stage 1 was progressing to break-even cashflow, and tranche 3 of a further \$8.5 million conditional on achieving operational break-even at Stage 1 and satisfactory progress being made towards Stage 2. A further requirement for both tranches 2 and 3 was consent for Sandefer to obtain security over SPP's interest in the Rundle joint venture. Sandefer required that the investment be in the form of secured convertible notes, with security being taken over all of the available assets of the Company and its subsidiaries.
- Following shareholders' unwillingness to support the rights issue and the diminishing financial resources of the Company, the Company was not in a strong position to bargain with Sandefer as to the terms of the proposed transaction. Sandefer publicly and privately expressed strong support for both the Company and the project and these expressions of support were accepted by the Company. In addition, Sandefer's publicly professed willingness to help attract US joint venture partners was a further attraction for the Company to complete the transaction.
- An Explanatory Memorandum explaining the Sandefer transaction in detail was furnished to shareholders and the transaction was overwhelmingly approved by a meeting of shareholders held on 23 May 2003. Following that meeting and the satisfaction of the conditions precedent, the transaction was completed in June 2003, when the first tranche of \$34 million was paid to the Company. As a result, Sandefer became the major investor in the Company, with the equivalent of a 43.44% equity interest (on a fully diluted basis).
- Whilst the Sandefer transaction was being negotiated, approved and completed, the Company continued to improve production and availability of the Stage 1 project. For the half year to 30 June 2003 oil produced exceed 300,000 barrels and plant availability increased to 63%.

Post Sandefer Issues

- The Company had planned a major shutdown of the plant to undertake necessary maintenance and substantial upgrading work to further increase both availability and

productivity of the plant, with a view to achieving operational break-even. This shutdown occurred at the end of July 2003 and continued to early September. The shutdown was longer and incurred more cost than originally planned. This added pressure on the Company to raise additional equity capital and/or accelerate the draw-down of tranches 2 and 3 from Sandefer.

- Notwithstanding that plant productivity and availability were both substantially improved as a consequence of the work carried out during the shutdown, because operational break-even had not yet been reached and the prolonged delays being experienced in obtaining approval of the Stage 2 EIS, Sandefer was unwilling to advance the payments of the second and third tranches.
- Accordingly, the Company intensified its search on a worldwide basis for further equity investors. All potential investors approached were unwilling to commit to investing funds until Sandefer disclosed whether or not it would exercise its right to maintain its percentage level of investment, which Sandefer would not do. The Company also undertook joint venture negotiations with Sandefer, but such negotiation never achieved any resolution.

Appointment of Receivers and Receivers' Sale

- On 2 December 2003, without notice of demand, Sandefer appointed Receivers to the Company and most of its subsidiaries. At the time, the Company was fully solvent, having surplus cash resources and product receivables of approximately \$10 million readily available. Although not accepting that Sandefer was entitled to appoint Receivers at that time, the Company recognised that with the necessary further financial support not then being available and with the loss of control of the Company's assets following the Receivers' appointment, a legal challenge to the appointment neither had any benefit for the Company at that time, nor did the Company have the financial capacity to mount such a challenge.
- In accordance with usual practice, the Receivers put the assets of the Company up for sale and a worldwide search for buyers was conducted by Lazards of London.
- Numerous enquiries were received and due diligence was undertaken by a number of parties, but the Company understands that only one complying bid for the purchase of the assets was received by the Receivers, this being the offer from Queensland Energy.
- While the sale process continued, the company received a number of queries from shareholders as to what action was being taken by the company itself. For reasons outlined earlier, the Company was not in a position to challenge the Receivers' sale to Queensland Energy (nor, to the Company's knowledge, was any other creditor) and, accordingly, the sale has now proceeded to completion.
- As the Receivers had publicly announced that the proceeds of sale would not be sufficient to fully discharge the debt due to the secured creditor (who continued to fund the Receivers since the date of their appointment) and that there would, therefore, be no funds from the Receivership available for unsecured creditors or shareholders, on 13 February 2004 Administrators were appointed to the Company and on 5 March 2004 Administrators were appointed to its subsidiary Central Pacific Minerals NL.

- With Administrators having been appointed and therefore now in control of the Company rather than the directors, shareholders will in future only receive reports from the Administrators through the ASX website unless a restructuring is proposed.

Further comment regarding the recent circumstances of the Company can be obtained from articles appearing in the Sydney Morning Herald and The Age on 27 March 2003, and in the Courier Mail on 23 February 2003. As there are no funds available to the Company to meet postage costs, and access to the Company's website has been denied to the Directors, the only practical way of circulating this letter is to furnish it to the ASX.