ASX / Media Release **11 February 2014**

Capitola Oil Project Acquisition
Cline Shale, Permian Basin, Texas, USA

HIGHLIGHTS

- **Pryme acquires the Capitola Oil Project in the Eastern Shelf of the Permian Basin, Texas**
- **Capitola is an active Cline Shale play which is overlain by two established oil fields having commercial carbonate and stacked sand development opportunities**
- **Pryme will drill to earn a 75% WI in all formations above the Cline Shale, and a 50% WI in the Cline and all deeper formations, across the 9,333 mineral acres comprising the project area**
- **Capitola is a low risk "stacked pay" vertical drilling opportunity with upside through development of the Cline Shale. The Cline is currently the subject of major exploration programs by large independent and publicly listed operators**

Pryme Energy is pleased to announce it has secured the right to earn an interest in 9,333 mineral acres located in an active region of the Cline Shale resource play in the Eastern Shelf of the Permian Basin, Texas USA. The acreage contains multiple "stacked" formations to depths of 6,000 feet which can produce from vertical wells, together with significant exposure to the emerging Cline Shale resource play. The Cline Shale is presently being developed in locations adjacent to and both East and West of the project area. Horizontal wells drilled through the Cline Shale are generating initial production rates of up to 1,000 BOE/day and vertical completions are producing up to 200 BOE/day with estimated ultimate recoveries ranging from 100,000 BOE to 600,000 BOE per well.

Pryme is operator of the project and will earn its interest by drilling 9 vertical wells and 1 horizontal well into the stacked formations above the Cline Shale on a well by well basis in a phased program over 2 years. Pryme may also accelerate the drilling program to earn its acreage and has absolute discretion over well locations and project progression from phase to phase. The first 3 well locations have already been agreed with the vendor.

"With up to 200 vertical locations and 60 horizontal well locations drill ready in the Cline Shale, there is plenty of room for the company to grow its production, revenues and value in the Capitola project area over a number of years," said Justin Pettett, Pryme's Managing Director. "In addition to testing multiple objectives and redevelopment opportunities, there is significant upside in this emerging shale play for Pryme and its shareholders."

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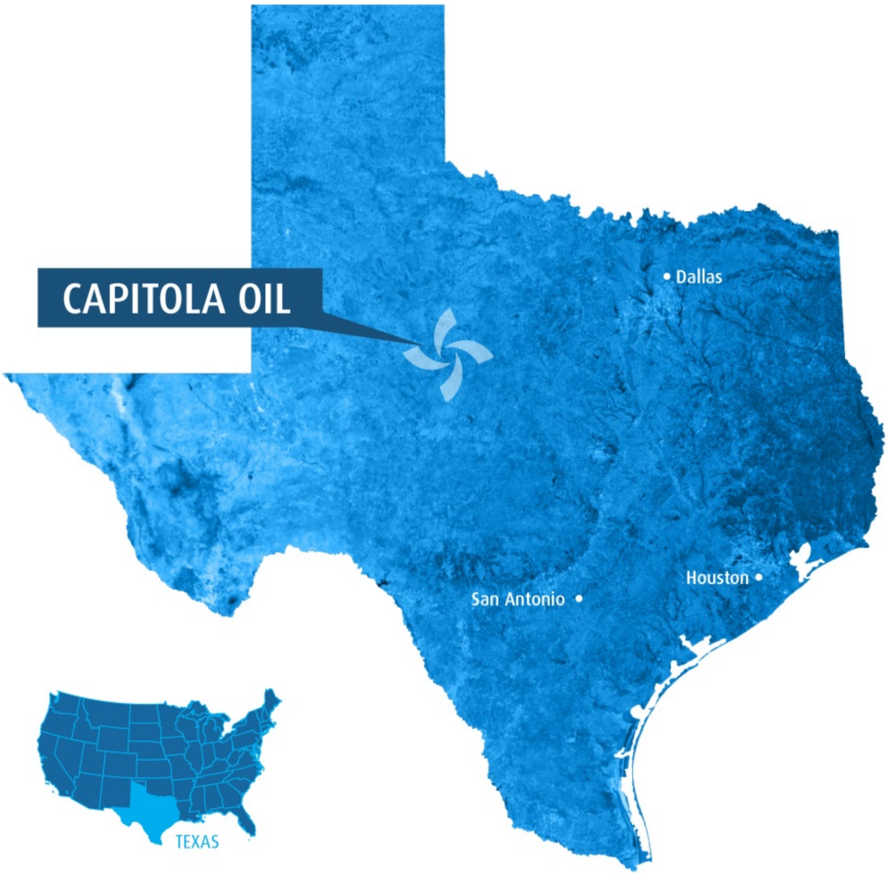
The Capitola Oil Project

The Capitola Oil project is located from 2 to 8 miles north of the town of Sweetwater in Nolan and Fisher Counties, Texas and overlies two proven productive oil fields containing 3 primary targets - the Breckenridge Lime (4,500 feet deep), the Canyon Sands (4,900 feet deep) and the Cline Shale (6,000 feet deep). The Canyon Sands itself offers 5 additional targets.

Large oil and gas operators such as Devon Energy (NYSE:DVN), Range Resources (NYSE:RRC) and Laredo Petroleum (NYSE:LPI) have leased significant tracts of land in the Cline Shale and are drilling horizontal wells in and around the Capitola Oil project with good results. Devon Energy has surrounded the project area with leases and is now permitting wells adjacent to the project acreage.

Other explorers are testing the shallower zones above the Cline as well as certain secondary zones below the Cline. The privately owned Gunn Oil Company is currently developing the shallow zones above the Cline, only 3 miles from the Capitola project area, and has 2 rigs drilling back to back vertical wells to exploit the lower Canyon Sands formation.

“We have seen a surge of activity in this part of the Permian Basin which has been primarily driven by Devon Energy expanding its position in the Cline Shale to over a half million acres,” said Ryan Messer Pryme’s Executive Director and COO. “Our initial objective is to drill vertical wells and produce from conventional zones above and below the Cline Shale. Revenue from these wells will support subsequent exploration. It is intended that the initial wells will penetrate the Cline to gather data in support of a horizontal drilling program.”



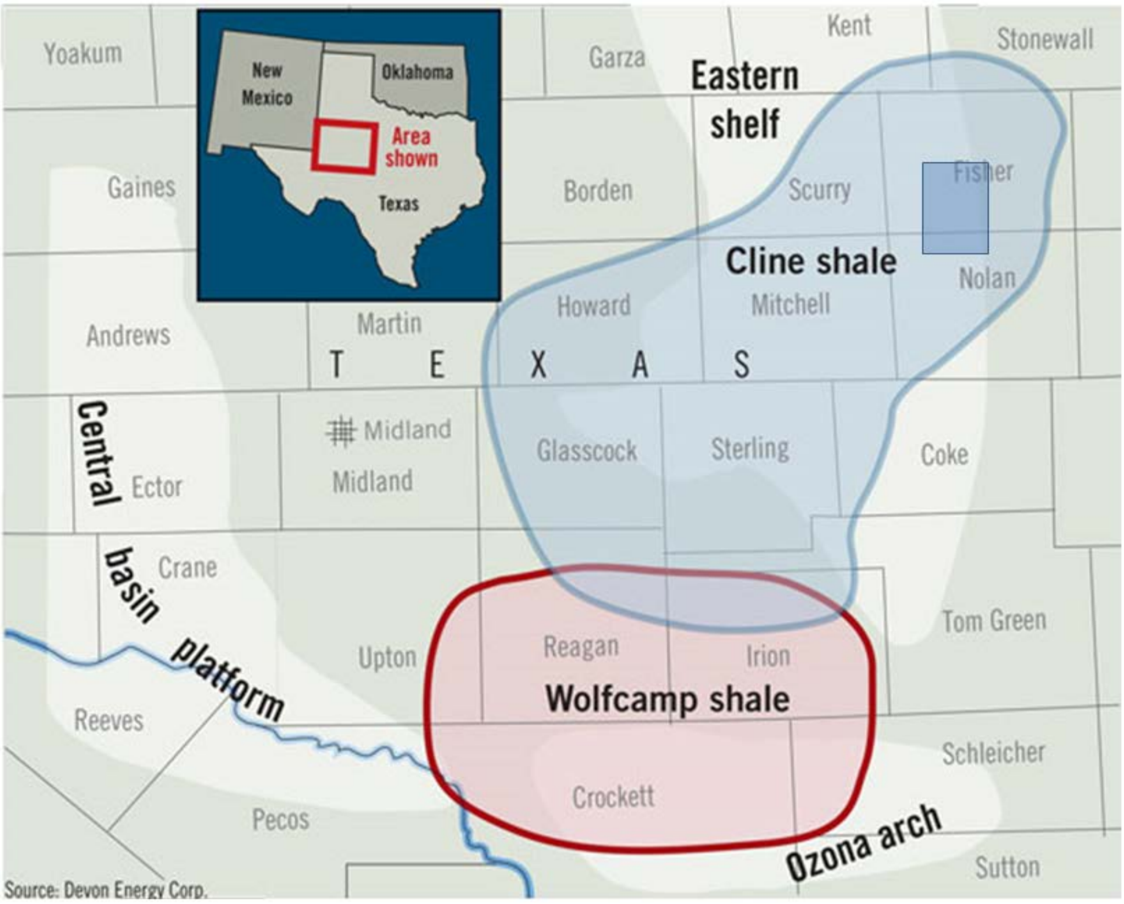
Capitola Oil Project Location – Permian Basin, Texas

The Cline Shale

The Cline Shale Oil play is located on the Eastern Shelf of the Permian Basin in West Texas and has been identified as an emerging oil shale development region with excellent potential (see image below).

The Permian Basin was the source of some of the earliest oil and gas discoveries in the United States. The Cline Shale is roughly 140 miles long and 70 miles wide and contains hundreds of oil and gas fields and is one of the most prolific oil areas in North America. Industry commentators are estimating that the Cline Shale could become the largest oil play in American history, even larger than the Bakken in North Dakota and the Eagle Ford in South Texas.

The basin was once covered by the Permian Sea which was hindered by a restricted outlet when it began to recede. The resulting inland sea evaporated over time in the hot dry location. This led to the formation of thick deposits of organic-rich sediments, creating one of the world's most productive oil regions. The Cline Shale is an organic-rich shale with mixed silt and sand beds; it has a high Total Organic Content (TOC) of 2-8%. The shale is 200 to 500 feet thick. The target zone in the Cline Shale has excellent porosity, between 3-12%, and contains natural fractures near the shelf edge which aid the effectiveness of fracture stimulation and production. The oil is generally light, 38-42 API gravity, and wells typically produce about 85% oil and liquids-rich gas.



Permian Basin Shale Formations – Capitola Oil project acreage in blue rectangle in Nolan and Fisher Counties

Project Potential and Typical Well Economics

Wells to test and establish production from the Breckenridge Lime and Canyon Sands formations will be drilled vertically and fracked in the productive horizons. A typical vertical well drilled to 6,000 feet costs approximately US$950,000 to drill and complete and is expected to produce from 50,000 to

140,000 BOE over its life assuming an initial production rate of 60 to 140 BOE/day from the primary targets.

A typical horizontal fracked Cline Shale well, drilled to about 6,000 feet vertically with a 4,000 foot lateral, costs approximately US$6.6 million to drill and complete and is expected to produce between 100,000 to 600,000 BOE over its life assuming an initial production rate of 120 to 710 BOE/day. With several hundred wells to drill in order to fully develop the project, the Capitola Oil represents enormous upside for Pryme and its shareholders.

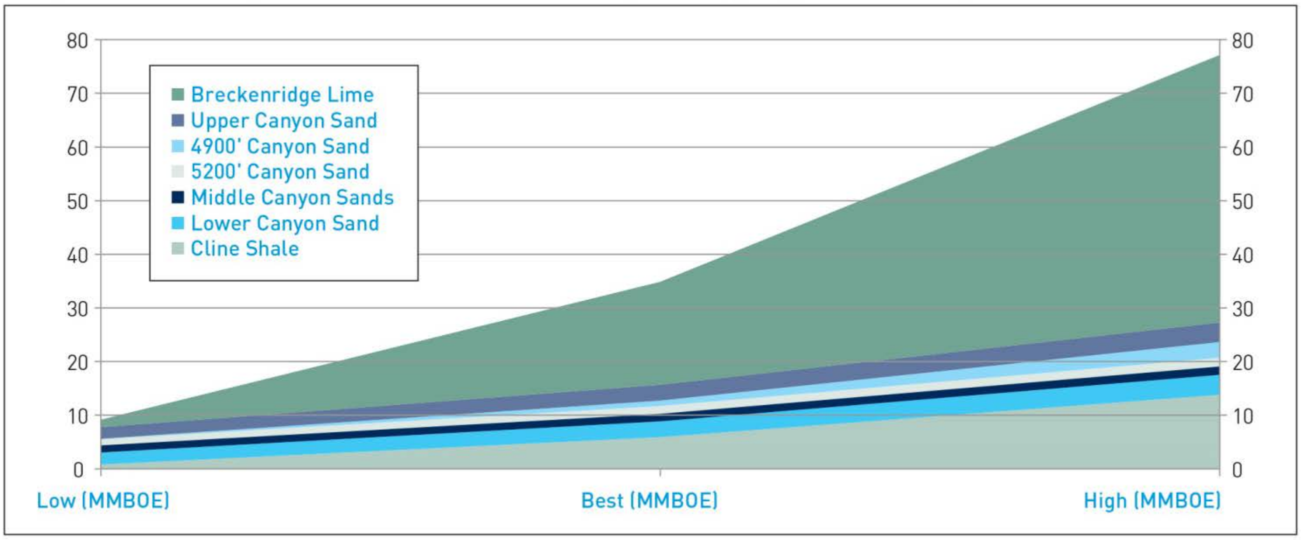
There is an extensive dataset available in and around the Capitola Oil project acreage which enables recoverable oil to be estimated using conservative, generally accepted recovery factors for each of the primary targets. The table and corresponding graph below illustrate the net potential for Pryme measured in millions of barrels of oil equivalent.

Recoverable Oil*	Low estimate	Best estimate	High estimate	Fractional recovery**
Breckenridge Lime	1.4 MMBOE	19.2 MMBOE	49.8 MMBOE	12.5%
Canyon Sands	6.9 MMBOE	8.7 MMBOE	10.6 MMBOE	18.0%
Cline Shale	0.8 MMBOE	5.9 MMBOE	13.8 MMBOE	6.0%
Total (BOE)	**9.1 MMBOE**	**33.8 MMBOE**	**74.2 MMBOE**	

* Recoverable Oil calculated by determining Remaining Oil in Place and applying a fractional recovery percentage as at the date of this announcement. All figures are net to Pryme and have been determined using a deterministic method for the Canyon Sands and a probabilistic method for the Breckenridge Lime and Cline Shale under SPE-PRMS. Natural gas is converted to BOE on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.

**Fraction recovery is calculated 1) Breckenridge Lime assumes general accepted recovery for solution gas drive reservoir, 2) Canyon Sands by material balance calculations, and 3) Cline Shale assumes generally accepted recovery for unconventional resource plays.

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.



Resource potential (primary objectives only)

Capitola Oil Project Terms

The project vendors are landmen and engineers with considerable Permian Basin experience; they will continue to be involved in and support the project. The agreement terms have been structured to align expenditure and commitment to the success of the project and are set out in detail in Appendix A to this release.

Pryme will earn a 75% WI (56.25% NRI) in all depths to the top of the Cline Shale formation in the 9,333 acres project area (7,000 net acres to Pryme) and a 50% WI (37.5% NRI) in the Cline Shale and deeper formations (4,666 net acres to Pryme in the Cline Shale) through the drilling of 9 vertical wells and one horizontal well over two years in a number of phases. Pryme, as operator of the project, has absolute discretion over well locations and project progression from phase to phase. The first 3 well locations have already been agreed with the vendor.

Pryme will fund 100% of the project cost for the first 3 wells. The vendors are entitled to a 25% WI in the first 3 wells after Pryme has recovered 100% of its costs for those wells combined (Back-in after Payout). The vendors are also entitled to participate in, and fund their share of costs at a 25% WI level, all wells from well 4 onwards.

Pryme has paid US$100,000 cash and has agreed to issue 6 million shares in Pryme Energy Limited to the vendors to secure the project. Pryme has the option to commit to the first phase of the project within three months. Phase I entails the drilling of 2 wells before August 1, 2014 and the payment of additional lease costs of US$750,000 through the remainder of 2014.

Additional cash payments to the vendors, amounting to US$2.5 million, will be made as the project moves through successive phases, each involving the drilling of vertical wells, and one horizontal well in Phase 4, over the next two years. The second phase of the project is scheduled to commence in the second half of 2014. Pryme may also accelerate the drilling program to earn its acreage.

Corporate Strategy

Our strategy is to focus on projects which offer increasing scalability of production, cash flows and reserves through high quality exploration opportunities located in the United States. We will target liquids rich petroleum systems with “stacked pay” vertical well conventional opportunities to minimize risk and maximize returns also with a focus on emerging unconventional plays less than 8,000 feet MD in order to avoid the high entry costs of the more mature plays.

The Capitola Oil project is a reflection of Pryme’s strategy. The project has numerous shallow conventional vertical targets to exploit and together with the upside through the development of the unconventional Cline Shale within the project acreage. Participation in the project will give shareholders low risk and high impact exposure to an emerging play.

The board and management team of Pryme are confident that the exploration and development of Capitola, along with our existing Four Rivers project, throughout 2014 will have the ability to build substantial value for the company and its shareholders.

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Competent Person Statement and Disclaimer

Reserves or prospective resources have been prepared by Mr Robert H. Patterson, a petroleum engineer who is a qualified petroleum reserves and resource evaluator as defined under ASX Listing Rule 5.41. Mr Patterson holds a Bachelor of Science in Chemical Engineering and has over 30 years' experience in engineering studies, evaluation of oil and gas properties, drilling, completion, production and process engineering of oil and gas operation and evaluation of properties in the USA. Mr Patterson has consented to the use of the reserve and/or prospective resource figures in this announcement. Mr Patterson is a member of the Society of Petroleum Engineers and is a registered Professional Engineer in the state of Texas.

Technical information contained in this presentation in relation to the projects of the Company have been reviewed by Mr Greg Short, BSc. Geology (Hons), a Director of Pryme who has more than 33 years' experience in the practise of petroleum geology. Mr Short consents to the inclusion in this presentation of the information in the form and context in which it appears.

This announcement contains "forward-looking statements". Such forward-looking statements include, without limitation: estimates of future earnings, the sensitivity of earnings to oil and gas prices and foreign exchange rate movements; estimates of future oil and gas production and sales; estimates of future cash flows, the sensitivity of cash flows to oil and gas prices and foreign exchange rate movements; statements regarding future debt repayments; estimates of future capital expenditures; estimates of reserves and statements regarding future exploration results and the replacement of reserves; and where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to oil and gas price volatility, currency fluctuations, increased production costs and variances in reserves or recovery rates from those assumed in the company's plans, as well as political and operational risks in the countries and states in which we operate or sell product to, and governmental regulation and judicial outcomes. For a more detailed discussion of such risks and other factors, see the Company's Annual Reports, as well as the Company's other filings. The Company does not undertake any obligation to release publicly any revisions to any "forward looking statement" to reflect events or circumstances after the date of this release, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

Appendix A

Key Terms of the Farm in Agreement

- Pryme has paid US$100,000 cash plus 6 million Pryme shares to secure the project
- Pryme will drill 9 vertical wells and 1 horizontal well into the primary targets outlined in this announcement and make cash payments to the vendors, as detailed below, to earn a total working interest of 75% (56.25% NRI) in the project's 9,333 acres to all depths from the surface to the top of the Cline Shale (7,000 net acres to Pryme) and a 50% WI (37.5% NRI) in all depths below the top of the Cline Shale (4,666 net acres to Pryme)
- Pryme will earn its interest in the project proportionately through the drilling of the 10 wells at the rate of a 7.5% WI from the surface to the top of the Cline Shale and a 5.0% WI below the top of the Cline Shale for each well drilled. The 10 well drilling program is broken into 4 phases:
  - Phase 1 – payment of US$750,000 on or before May 6, 2014 and drilling of 2 wells
  - Phase 2 – payment of US$750,000 on or before August 1, 2014 and drilling of 3 wells
  - Phase 3 – payment of US$750,000 on or before February 1, 2015 and drilling of 3 wells
  - Phase 4 – payment of US$1,000,000 on or before August 1, 2015 and drilling of 2 wells (1 well horizontal)
- Pryme is the operator of the project
- Pryme will fund 100% of the costs of the first 3 wells and the vendors are entitled to a 25% WI in those wells (Back-in after Payout) after Pryme has recovered 100% of its costs. The vendors are entitled to participate in and fund their share of costs, at a 25% WI level, in all wells from well 4 onwards
- The commitment to drill wells and make cash payments over the next 2 years is at the sole discretion and option of Pryme thereby aligning payments to the vendor and commitments to drill wells to the success of the project. Well locations for Phase 1 have already been agreed with the vendors.
- Pryme may accelerate the drilling program to earn its acreage

Glossary

A$	Australian Dollars
US$	United States Dollars
Bbls/day	Barrels (of oil) per day
MMBO	Million Barrels of Oil
MMBOE	Million Barrels of Oil Equivalent
BOE	Barrels of Oil Equivalent
BOE/day	Barrels of Oil Equivalent per day
BOE/month	Barrels of Oil Equivalent per month
Mcf	Thousand cubic feet (of natural gas)
Mcfd	Thousand cubic feet (of natural gas) per day
NRI	Net Revenue Interest
WI	Working Interest
TVD	Total Vertical Depth
TMD	Total Measured Depth
MD	Measured Depth
OOIP	Original Oil in Place
3.28 feet	Equals 1 metre