30 July 2015

# June 2015 Quarterly Activity and Cashflow Report

**Company Snapshot**

| | |
|---|---|
| ASX Code: | PYM |
| OTCQX Code: | POGLY |
| Recent price:<br>*(24 July 2015)* | A$0.004 |
| Cash on hand: | $4.0 million |
| Shares outstanding: | 1,007,380,397 |
| Options<br>*(A$0.02 exercise 23 July 2016 expiry)* | 458,340,516 |
| Market Capitalisation: | $4.0 million |
| Share price range (12 months): | $0.004 - $0.014 |

**Production**

Quarterly Sales Report (net to Pryme)

| Project | June 2015 Quarter | | Calendar Year to Date | |
|---|---|---|---|---|
| | Natural Gas (Mcf) | Oil/Condensate (Bbls) | Natural Gas (Mcf) | Oil/Condensate (Bbls) |
| Four Rivers | 0 | 2,095 | 0 | 3,864 |
| Capitola* | 11,815 | 8,246 | 13,464 | 13,810 |
| **Total**** | **11,815** | **10,341** | **13,464** | **17,674** |
| **Total (BOE**)** | **12,310** | | **19,918** | |

| June 2015 quarter average daily sales (net to Pryme) | | Increase (decrease) from previous quarter |
|---|---|---|
| Oil | 114 Bbls | 139% |
| Natural Gas | 130 Mcf | 633% |
| **BOE**** | **136 BOE** | **159%** |

** Actual sales for the last month of the quarter may be an estimate based on production data from prior months of production.*
*** Natural gas is converted to BOE on the basis of 6 Mcf of natural gas is equivalent to 1 BOE and includes oil and gas production from other assets not listed in the table.*

Oil production net to Pryme for the June quarter of 2015 exceeded March quarter production by approximately 139%, similarly natural gas production was up 633% over the previous quarter. The increase in production is mainly attributable to the Capitola Oil Project. In particular, the increase in gas production reflects first production from the McCain well. A slight increase in production from LaSalle also had a minor impact on production for the quarter.

**Financial**

Cash on hand at 30 June 2015 was $4.0 million with major expenditures during the quarter including additional capital cost for the Capitola Oil project. We do not envisage further capital costs for Capitola in the coming quarter other than minor expenditures related to optimizing operations and production.

Cash receipts from oil and gas sales for the quarter totalled $800,000 which is up 300% over the previous quarter due to 3 full months of production from the Mahaffey Bishop and Hope Boles wells and the timing of receipts for first sales from the McCain well in Capitola.

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Net operating income totalled $500,000 for the quarter compared to a net operating loss of $50,000 during the March 2015 quarter. The loss in the March quarter and the substantial increase in the June quarter are primarily due to the timing of production revenue from the McCain well and the first full quarter of production in the Capitola Oil Project.

**Newkirk Project**

In line with its corporate strategy of focusing on high quality exploration projects offering significant scalability of production, cash flows and reserves, the Company acquired a 50% working interest (WI) in the Newkirk Project in Oklahoma. The project is focused on the Mississippi Lime formation and offers vertical drilling targets within "stacked pay," proven plays.

The acquisition of the Mississippi Lime acreage and entry into the Newkirk Project is the second phase of the corporate strategy and follows the 2014 acquisition of the Capitola Oil Project which is located along the Eastern shelf of the Permian Basin in Texas. Participation in the project is a valuable geographic and geological diversification which will provide shareholders with a low risk and high impact exposure to an established play.

Pryme has entered the Newkirk Project with a holding of 2,320 net acres in an oil rich region of the Mississippi Lime. In conjunction with the acquisition, Pryme entered into a 50/50 operating agreement with Empire Energy Limited (ASX: EEG) with the objective of growing and developing its footprint within the Mississippi Lime.

The initial work program will comprise two vertical wells targeting known oil and gas producing horizons including the Wilcox formation, the Mississippian Lime and other shallower hydrocarbon bearing objectives. The estimated cost of drilling and completing each well, to the 100% Working Interest, is approximately US$525,000 with a dry hole cost of approximately US$180,000 per well. Costs will be shared 50/50 on a heads up basis with Empire Energy and drilling is expected to commence towards the end of the third quarter.

The acreage was acquired from ASX-listed Raya Group Limited (ASX: RYG). The consideration comprised 100 million fully paid Pryme shares and $250,000 cash. In addition, conditional consideration of $175,000 will be payable in respect of each of the first two wells in the event the gross 1P reserves from each well is certified, within 6 months after the commencement of production from the second well, to be equal to or greater than 31 thousand barrels of oil and 200 million cubic feet of natural gas.

<u>Economics – Initial Newkirk Project Wells</u>

The initial wells will be located close to existing infrastructure including oil and natural gas refining plant, salt water disposal facilities and power. Based on each well demonstrating gross 1P proven reserves of 30 MBO and 200 MMcf of natural gas, the estimated net present value at current oil and gas prices of each well at a 10% discount rate varies with the oil price as shown in the table below.

As outlined in the Pinnacle Energy Services LLC reserve report, announced by Raya Group on 24 February 2015, wells can be drilled on 40 acre spacing. On this basis Pryme will be able to drill at least 58 wells throughout its acreage. **This would result in project economics that could yield Pryme US$32 million in undiscounted cash flow and US$10 million in net present value at a 10% discount (NPV10).** We hope to improve well economics as we move ahead by optimising completions and well designs.

- Net Revenue Interest 81.25%
- Initial potential (oil rate): 46 Bbls/day
- Estimated Ultimate Recovery (EUR) 31 MBO and 200 MMcf (64 MBOE)
- Drilling and completion costs: US$525,000 per well (Pryme 50% WI US$262,500)
- Dryhole cost: US$180,000 per well (Pryme 50% WI US$90,000)
- Vertical well type curve based on industry standard in the region (confirmed in the Pinnacle Report)
- Finding and development costs – US$16.70 per BOE (100% WI)
- 74% liquids by volume (55% oil and 19% condensate)
- Attractive returns at low commodity prices (see following table)

| Newkirk Project Single Well Economics | | | | |
|---|---|---|---|---|
| Oil US$/Bbl* | $55.00 | $65.00 | $75.00 | $85.00 |
| Gas US$/Mcf** | $3.64 | $3.64 | $3.64 | $3.64 |
| NPV 10 US$ | $227,140 | $362,380 | $497,700 | $633,060 |
| IRR % | 25% | 37% | 51% | 68% |
| Payback Yrs | 3.1 | 2.3 | 1.8 | 1.4 |

**Oil price includes US$3.00 differential per barrel (Example: $55.00 case the actual oil price used to calculate NPV, IRR and payback is $52.00)*
***This is the natural gas price in the first year then 1 January 2015 NYMEX prices from year 2 onwards*

"Pryme is now well-placed in two attractive oil and gas regions of the United States. The Permian Basin in Texas and the Mississippi Lime in Oklahoma," said Justin Pettett, Pryme's Managing Director. "We have thoroughly reviewed many opportunities over the past two years and we believe that the Mississippi Lime, with robust economic performance even in times of low oil prices, is a perfect complement to our Capitola Oil project. We look forward to beginning our drilling program over the coming months."

<u>About the Newkirk Project</u>

Among the significant tight oil plays in the United States, one of the Mississippi Lime's distinguishing traits is its lower-cost, shallower nature. Production per well in this play, which straddles the Oklahoma and Kansas border along the Nemaha Ridge, may sometimes average less than other plays, but countering these lower production numbers are the advantages of lower well costs and increased access to infrastructure all within a stacked pay environment. The Mississippi Lime remains one of the United States more active plays after North Dakota's Bakken, Texas' Eagle Ford, and the Permian Basin. It's one of several plays that have helped turn around U.S. crude oil production.

Pryme has entered the play with 2,320 net acres and enjoys an operating agreement with an established operator to further develop the project on a 50/50 basis. The initial wells will be drilled vertically through stacked pay environments to approximately 5,000 feet utilising completion methods successfully developed by other operators in the region over the past 5 years.

**Capitola Oil Project**

During the June quarter Pryme brought the fourth well drilled in this project into production. The Shari Lynn No.1 (100% Working Interest, 75% Net Revenue Interest) is located in the Sweetwater acreage block. The well is currently producing a high volume of formation water at around 50 barrels per day. This is impeding oil production which averaged 5 barrels of oil per day during the June quarter. Further analysis of the well and surrounding geology is presently underway to generate a remediation plan for rectifying the relatively high water and low oil production.

The previous 30 day average daily production rate from the Capitola Oil Project is steady at 120 Bbls of oil (90 barrels of oil net to Pryme) and 161 Mcf of natural gas (121 Mcf of natural gas net to Pryme). The Mahaffey Bishop and McCain wells continue to produce at levels around their initial production rates.

<u>Future Development and Plan</u>

Plans to drill the fifth well, the Fox 7-L4, have been suspended pending line of sight on a recovery in oil prices and potential remediation of the Shari Lynn well. This will preserve Pryme's strong cash position and limit capital spending to the Company's new Newkirk Project. Pryme has earned, and will now limit its interest the Capitola Oil Project to, a 37.5% WI (3,500 net acres) in the Shallow Rights and a 25% WI (2,333 net acres) in the Deep Rights throughout the project undeveloped acreage. Pryme retains a 100% WI (75% NRI) in the first 4 wells and their associated production units.

<u>Initial Reserve Report</u>

The initial reserve report and field study for the Capitola Oil Project has almost been completed for the Proved Developed Producing and Proved Undeveloped classes of reserves. The engineering assessment to be included in the report is still underway and, when complete, will drive the future development of the project including well locations and design as well as implementation of secondary reservoir support to enhance oil recovery. The report will classify reserves and resources from 1P, 2P, 3P through to Contingent Resources and will provide further evidence of the value of the Capitola Oil Project.

About the Capitola Oil Project

The Capitola Oil Project is located in an active region of the Eastern Shelf of the Permian Basin just north of the town of Sweetwater, Texas. The project contains a number of shallow, “stacked” formations to depths of 7,500 feet, with established oil production history from vertical wells. The Capitola Oil Project acreage is contained within two contiguous lease blocks referred to as Sweetwater (approx. 7,000 acres) and Claytonville (approx. 2,333 acres) to the north of Sweetwater. Pryme has a 100% WI (75% NRI) in the initial four wells and units drilled in the project and a 37.5% WI in the shallow rights of the undeveloped acreage (25% WI in the deep rights).

**Four Rivers Project (8% - 25% WI)**

The June 2015 quarter oil sales of 2,152 barrels (24 Bbls/day net to Pryme) were marginally higher than the previous quarter. This is mainly attributable to fluctuations in the timing of oil sales. Pryme has an interest in 1,260 acres (240 acres net to Pryme) located in LaSalle and Catahoula Parishes Louisiana and Jefferson and Wilkinson Counties in Mississippi.

**Corporate**

During the quarter the Directors of Pryme invited Mr Daniel Lanskey to join the Board as a Non-Executive Director. Dan was the founding Managing Director of AusTex Oil Limited (ASX: AOK) and successfully led AusTex through the acquisition of acreage in Oklahoma’s Mississippi Lime formation and establishment of production exceeding 1,000 barrels per day of oil. Mr Lanskey’s Industry connections, both within Australia and in North America, will prove beneficial to Pryme and its shareholders, not only in respect of the newly established Newkirk Project but in all areas of the company’s activities.

The Board of Pryme is currently reviewing ways to further reduce the administrative and operational cash burn of the Company and preserve its strong cash balance during these times of low commodity prices and weakened capital market conditions. The Company expects to conclude its review and make an announcement on any changes during the month of August.

**Oil and Gas Tenements**

| Project | Location | Interest acquired or disposed of during the quarter net to Pryme | Total acres owned net to Pryme | Working Interest held as at 30 June 2015 |
|---|---|---|---|---|
| Newkirk | Kay and Noble Counties, Oklahoma | 2,320 acres acquired* | 2,320 acres | 50% |
| Capitola | Nolan and Fisher Counties, Texas | - | 3,500 acres (Shallow Rights) | 100% in each well<br>37.5% in the undeveloped acreage |
| | | - | 2,334 acres (Deep Rights) | 25% in the undeveloped acreage |
| Four Rivers | LaSalle and Catahoula Parishes, Louisiana; Jefferson & Wilkinson Counties, Mississippi | - | 240 acres | 19% average in each well |

**effective 1 July 2015*

For further information please contact:

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**Glossary**

| | | | |
|---|---|---|---|
| $ | Australian Dollars | Mcf | Thousand cubic feet (of natural gas) |
| US$ | United States Dollars | Mcfd | Thousand cubic feet (of natural gas) per day |
| Bbls/day | Barrels (of oil) per day | MMcf | Million cubic feet of natural gas |
| MBO | Thousand barrels of oil | NRI | Net revenue interest |
| MMBO | Millions barrels of oil | WI | Working interest |
| MBOE | Thousand barrels of oil equivalent | TVD | Total vertical depth |
| MMBOE | Millions barrels of oil equivalent | TMD | Total measured depth |
| BOE | Barrels of oil equivalent | MD | Measured depth |
| BOE/day | Barrels of oil equivalent per day | 3.28 feet | Equals 1 metre |
| EUR | Estimated Ultimate Recovery | | |

*Rule 5.3*

# Appendix 5B

## Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10; 01/05/2013

Name of entity

Pryme Energy Limited

ABN

75 117 387 354

Quarter ended ("current quarter")

30 June 2015

## Consolidated statement of cash flows

| **Cash flows related to operating activities** | | Current quarter $A'000 | Year to date (6 months) $A'000 |
|---|---|---|---|
| 1.1 | Receipts from product sales and related debtors | 794 | 1,048 |
| 1.2 | Payments for (a) exploration & evaluation | (1,898) | (3,974) |
| | (b) development | - | - |
| | (c) production | (292) | (585) |
| | (d) administration | (556) | (1,066) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 7 | 17 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other (provide details if material) | (11) | (23) |
| | **Net Operating Cash Flows** | (1,956) | (4,583) |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for purchases of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | (17) | (17) |
| 1.9 | Proceeds from sale of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.10 | Loans to other entities | (200) | (200) |
| 1.11 | Loans repaid by other entities | - | - |
| 1.12 | Other (provide details if material) | - | - |
| | **Net investing cash flows** | (217) | (217) |
| 1.13 | Total operating and investing cash flows (carried forward) | (2,173) | (4,800) |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | (2,173) | (4,800) |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) | - | - |
| | **Net financing cash flows** | - | - |
| | **Net increase (decrease) in cash held** | (2,173) | (4,800) |
| 1.20 | Cash at beginning of quarter/year to date | 6,122 | 8,440 |
| 1.21 | Exchange rate adjustments to item 1.20 | 6 | 315 |
| 1.22 | **Cash at end of quarter** | 3,955 | 3,955 |

## Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

| | | Current quarter $A'000 |
|---|---|---|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 178 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | 200 |

1.25 Explanation necessary for an understanding of the transactions

During the quarter the company advanced $200,000 to the Managing Director to cover part of a tax liability arising out of an employee option scheme with the Company. The loan is on commercial terms, including interest payable and is repayable in full 2 years from the date of the advance.

## Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

## Financing facilities available

*Add notes as necessary for an understanding of the position.*

| | | Amount available $A'000 | Amount used $A'000 |
|---|---|---|---|
| 3.1 | Loan facilities | - | - |
| 3.2 | Credit standby arrangements | - | - |

## Estimated cash outflows for next quarter

| | | $A'000 |
|---|---|---|
| 4.1 | Exploration and evaluation | 1,125 |
| 4.2 | Development | - |
| 4.3 | Production | - |
| 4.4 | Administration | 298 |
| | **Total** | **1,423** |

## Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | | Current quarter $A'000 | Previous quarter $A'000 |
|---|---|---|---|
| 5.1 | Cash on hand and at bank | 3,955 | 6,122 |
| 5.2 | Deposits at call | - | - |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.22) | 3,955 | 6,122 |

## Changes in interests in mining tenements and petroleum tenements

| | | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---|---|---|---|---|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | - | - | - | - |
| 6.2 | Interests in mining tenements acquired or increased | - | - | - | - |

## Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

| | | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|---|---|---|---|---|---|
| 7.1 | **Preference +securities** *(description)* | NA | | | |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | **+Ordinary securities** | 907,380,397 | 907,380,397 | Various | Fully paid |
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 | **+Convertible debt securities** *(description)* | Nil | - | - | |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 | **Options** *(description and conversion factor)* | 458,340,516 | | *Exercise price*<br>$0.02 | *Expiry date*<br>23 July 2016 |
| 7.8 | Issued during quarter | - | - | - | - |
| 7.9 | Exercised during quarter | - | - | - | - |
| 7.10 | Expired during quarter | - | - | - | - |
| 7.11 | **Debentures** *(totals only)* | NA | | | |
| 7.12 | **Unsecured notes** *(totals only)* | NA | | | |

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: ............................................................ Date: 30 July 2015
(Director/~~Company secretary~~)

Print name: JUSTIN PETTETT

## Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

5 Accounting Standards ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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