

2015 Chairman's Address

The objectives for 2014 were to exit the Turner Bayou project and to re-position the company as a well-capitalised junior explorer with a highly prospective project in front of it and a refreshed commitment to grow the business.

These goals were achieved in a business environment where new equity for junior resource companies was both scarce and expensive and where, over the second half of the year, oil prices fell by more than 50%.

The achievements required a significant effort from management in transforming the business from one which had limited prospects and little cash at the beginning of the year to one which had a new and very promising project as well as \$8.4 million in cash by year end.

Pryme's Managing Director, Justin Pettett, will elaborate more on the attributes and performance of the Capitola Oil Project in his address. However, in brief, since commencing exploration on the project towards the end of last year we have drilled and completed three wells, we will commence fracture stimulating and completing our fourth well this week and we plan to drill and complete a fifth well before mid-year. Of the three completed wells, two are producing satisfactorily and one is undergoing a series of tests with a view to achieving stable and optimized production.

Even at current oil prices, production from the Capitola Oil Project is strongly cash positive. Current daily production from the project is approximately 140 barrels of oil and 200Mcf of natural gas and associated natural gas liquids per day. At today's prices this production is worth approximately A\$250,000 per month in revenue.

Net production over the last quarter of 2014 averaged 28 barrels of oil equivalent per day; by way of a comparison, average production over the past week was 151 barrels of oil equivalent per day; the increase is fully attributable to Capitola and the project is still in its infancy.

With many drillable locations, our objectives for Capitola are to grow profitable production at an affordable rate and, after proof of concept has been established, to place it in a continuous drilling mode which should provide more management time to focus on new opportunities.

In identifying and evaluating new project opportunities, we are not banking on a rapid recovery in oil prices but rather attempting to identify exploration targets which, if reasonable expectations of success are realized, will be profitable and value adding for Pryme and its shareholders even at current commodity prices.

As we have stated on a number of occasions, in all capital expenditure we are very mindful of the relatively low price of oil and the need to prudently manage our cash reserves.

The company raised \$13.1 million in new capital (before costs) over the year. Of this amount \$6.3 million (before costs) came from the issue of new equity and \$6.8 million from the sale of the company's interest in the Raven gas project in Louisiana. The equity issues were effected at substantial discounts to the prevailing share prices. However, in the circumstances, the company had little choice in that. As a consequence, the present market capitalization of the company is well below the cash backing and



does not attach any value to the Capitola Oil project. We believe that, with continued strong performance from Capitola, we should be able to reverse and then improve upon that situation.

The company's poor share price performance reflects more the discounts at which capital has been raised rather than the intrinsic value of the company. In these circumstances a number of significant shareholders have reduced their shareholdings in the company and a number of new significant shareholders have been added to the register. We welcome the new investors and re-state our commitment to making an investment in Pryme Energy profitable for all shareholders.

In closing I want to commend the commitment and dedication of our small management team. When times are tough, as they have been over the past couple of years, the efforts of management are often not visible to the investors and are not recognized in the share price. Notwithstanding this, the unrelenting hard work by your management team has provided a strong platform for the future of Pryme and has put the company in a stronger position than many of its peers.

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