23 January 2015

Capitola Oil Project Operations Update

HIGHLIGHTS

- **Fracture stimulation of Hope Boles PU1 completed and pump connected**
- **Mahaffey Bishop PU1 production at 62 barrels of oil per day and building**
- **Update on completion timing of McCain 189-F1**
- **Earned acreage in Capitola and additional drilling**
- **Guidance in response to crude oil prices**
- **Pryme ends year with A$8.4 million cash**

Pryme Energy Limited (Pryme) is pleased to announce that the second well drilled in the Capitola Oil Project, the Hope Boles PU1 in the Sweetwater acreage block, has been fracture stimulated in both the Canyon Sand series and Cline Shale intervals. The well was stimulated to plan and responded as expected; oil, gas and frack fluids are currently being produced from both intervals. The Initial Potential (IP) of the well will be determined following the removal of frack fluid from the two intervals.

"As with the Mahaffey well, the fracture stimulation of the Hope Boles went very smoothly and to plan," said Justin Pettett, Pryme's Managing Director. "The well is expected to produce increasing volumes of oil as it cleans up from fracture stimulation and the frack fluid is produced back."

Pryme has a 100% Working Interest (WI) (75% Net Revenue Interest (NRI)) in the Hope Boles well. This will continue until payout of the first three Capitola Oil Project wells and will then reduce to a 75% WI (56.25% NRI).

Mahaffey Bishop PU1 (100% WI / 75% NRI before payout (75% WI and 56.25% NRI after payout))

During the Christmas holiday period the Capitola Oil Project was affected by unseasonal cold and wet weather (with daily temperatures as low as 13 degrees Fahrenheit (-11 degrees Celsius)) which impeded field operations. As a result, the temporary generator powering the pumping unit on the Mahaffey well operated intermittently reducing the production of frack fluid from the well. At the time of this announcement approximately 78% of the frack fluid has been produced and the oil cut of total fluid production is currently 47%. The present oil production rate is 62 barrels per day (46 net to Pryme), we expect this rate to increase as frack fluid is produced and the well cleans up. The average rate of increase in oil production for the past week was over 12% per day.

"We are encouraged with the results from the Mahaffey well so far and look forward to optimising production over the coming weeks," said Mr Pettett. "The IP will be determined once the frack fluid has been removed and the oil cut stabilises."

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McCain 189-F1 (100% WI / 75% NRI before payout (75% WI and 56.25% NRI after payout))

Completion in the main objective formation of the recently drilled McCain 189-F1, which is located in the Claytonville acreage block, was delayed to enable a test of the Ellenburger Formation. The Ellenburger is the deepest of the zones which had hydrocarbon shows, therefore testing it prior to completion in the main objective intervals was the most cost effective way to determine its productivity. Preparation for the fracture stimulation and completion in the Canyon Sand series and Cline Shale intervals is now underway; completion is scheduled for next week. Approximately 170 net feet (51 net metres) of oil and gas saturated sandstones, limestones and shales were encountered during drilling of the McCain well.

Earned Acreage in Capitola and Additional Drilling

Under the terms of the Capitola Oil Project Farmout Agreement (Agreement) Pryme may earn up to a 75% WI in all mineral rights from surface to the top of the Cline Shale (the Shallow Rights) and up to a 50% WI in all other rights including the Cline Shale (the Deep Rights) in the entire 9,333 acres under lease. The interest is progressively earned by Pryme drilling wells and making cash lease payments. After drilling of the first three wells Pryme has now earned a 30% WI (2,800 net acres) in the Shallow Rights and a 20% WI (1,867 net acres) in the Deep Rights.

Further drilling in Capitola is scheduled to begin next week with the drilling of the Shari Lynn #1 to 5,400 feet (1,646 metres) through the stacked Canyon Sand series. A fifth well is planned to be drilled later in February. Upon the drilling of the fifth well Pryme will have earned a 45% WI (4,200 net acres) in the Shallow Rights and a 30% WI (2,800 net acres) in the Deep Rights.

Guidance in response to crude oil prices

Mr Pettett commented on Pryme's response to the low oil price environment as follows, "we have taken steps to adjust our capital budget and development plans to preserve cash in response to the drop in oil prices. While these adjustments will slow the planned growth in reserves and production in the near term, the company retains a strong cash position of A$8.4 million (predominantly held in US dollars) and remains focused on adding reserves and production from the already drilled and planned Capitola Oil Project wells."

Production from the Capitola Oil Project is expected to be cashflow positive at current oil prices. The estimated cash operating costs are in the range US$10 – US$12 per net oil barrel (net of mineral owner royalty) and the estimated finding cost (total costs to drill, stimulate and complete a typical vertical Capitola Oil Project well) is approximately US$18 per net oil barrel (based on the assumption of an estimated ultimate recovery of 73,000 barrels of oil per well).

Under the terms of the Agreement, making future lease payments and the continued drilling of wells are optional for Pryme and decisions to make payments and drill wells will be taken after consideration of many factors including oil prices and the economic environment.

A$8.4 million cash at bank

Pryme has ended the year with A$8.4 million cash at bank which is predominantly held in US dollars. The Board of Directors will continue to maintain a sound cash balance through 2015 while oil prices are low. Further details on Pryme's cash position will be available in its December 2014 quarterly report to be lodged later this month.

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 6,000 feet, with established production history from vertical wells. These overlie the Cline Shale formation which is the subject of an emerging resource play of national significance. Pryme’s value creation strategy is to develop the shallower, well-defined targets using advanced drilling, completion and stimulation technology, and to exploit horizontal development of formations where feasible as major US E&P companies which surround Pryme’s acreage demonstrate value.

There are three primary targets in Capitola along with numerous secondary targets. The primary targets, which persist throughout our acreage, are the Breckenridge Lime at 4,500 feet deep, the Canyon Sand series at approximately 5,200 feet in depth and the Cline Shale at 6,000 feet deep. Pryme can earn up to a 75% working interest in 9,333 acres (7,000 net acres) in all mineral rights from the surface through to the top of the Cline Shale and up to a 50% working interest (4,666 net acres) in all other rights including the Cline Shale.

The Capitola Oil Project acreage is contained within two blocks of contiguous leases referred to as Sweetwater (approx. 7,000 acres) and Claytonville (approx. 2,333 acres) to the north of Sweetwater. Pryme is the operator of the Capitola Oil Project.

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Competent Person Statement and Disclaimer

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.