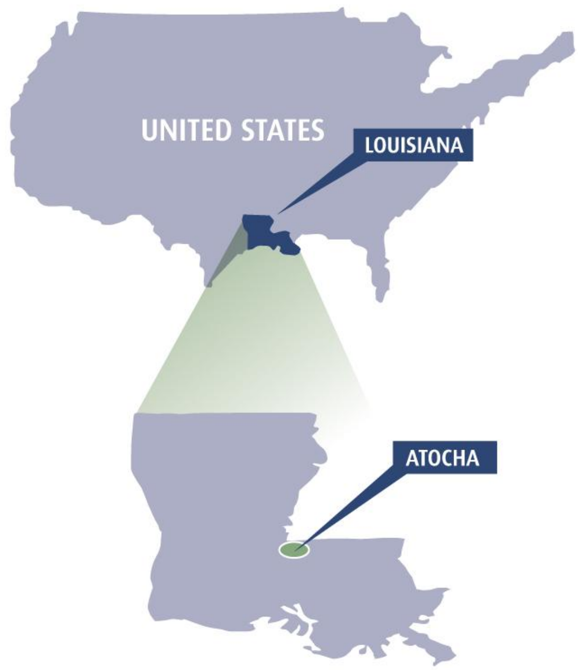
16 October 2009

Farm Out of 25% interest in Atocha Project

Pryme Oil and Gas Limited (ASX: PYM) (Pryme) is pleased to announce that it has entered into an agreement to farm out a 25% interest in the Atocha Project to Promesa Limited, a specialised oil and gas investment company applying for listing on the Australian Securities Exchange (Promesa).



Together with the recently announced farm out of 50% of Atocha to Future Corporation Australia Limited, Pryme has now achieved its goal of farming out 75% of the Atocha project. As a result of both farm outs the Company has received US$1,050,000 in cash and will be free carried for a 12.5% working interest through to production on the re-entry of the HM Brian No.1 well. Pryme's final working interest in the Atocha project will be 25% including its carried working interest plus an overriding royalty interest of 3%. Pryme is also the operator of the project.

"We are pleased to welcome Promesa as a partner in the Atocha Project and look forward to work continuing on the re-entry," said Justin Pettett Pryme's Managing Director. "If successful we plan to bring the HM Brian No.1 well into production before the end of the year. The Atocha Project is a testament to the ability of Pryme's management team to generate high impact prospects, build strategic mineral acreage positions and successfully farm out projects."

The Atocha Project – key points

- Up-dip to the Port Hudson field in the heart of the prolific Tuscaloosa Trend
- 6,400 contiguous acres project area which is close to existing oil and gas infrastructure
- Project area is prospective for oil and gas with a target size of 1.2 Trillion Cubic Feet Equivalent (TCFE) of recoverable gas equivalent for the entire Pryme acreage
- First prospect test
    - Re-entry, to a depth of 17,700 feet, of existing well drilled by Shell Oil
    - Prospect defined by a grid of reprocessed 2D seismic

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  - Mud log indicates 125 feet of bypassed pay with oil and gas potential
  - Work on the re-entry is expected to begin within 30 days
  - Prospective for oil and gas with target size up to 28 Billion Cubic Feet Equivalent (BCFE) of recoverable gas equivalent
- Project area has potential for additional prospects

Material terms of the agreement

- Cash reimbursement to Pryme of 25% (approximately US$350,000) of project costs to date
- Promesa will carry Pryme for a 1/8th (12.5%) proportionate interest though to production on the first prospect test - the re-entry of the HM Brian No.1 well
- Pryme will retain a 3% overriding royalty interest in production from the prospect and, where achievable, an overriding royalty throughout the entire 6,400 acres
- Following the re-entry, drilling and development of all subsequent Atocha project prospects will be on a "heads up" basis

Project Description

The Atocha Project, located in East Baton Rouge and East Feliciana Parishes in Louisiana, covers 6,400 contiguous acres within the up-dip fairway of the Tuscaloosa Trend. The Tuscaloosa Trend was discovered in 1975 by Chevron. It has produced over 2.8 Trillion Cubic Feet (TCF) of natural gas and 120 million barrels of condensate over the past 32 years.

Atocha is located five miles north of BP's Port Hudson Field which is the best producing field in the trend and contains the HM Brian No.1 well which was drilled by Shell Oil in 1980. Petrophysical analysis has concluded that this well contains over 125 feet of bypassed Tuscaloosa pay sand. With the benefit of hindsight and some 30 years of experience in the Tuscaloosa Trend, experts have indicated that a discovery of this calibre would be completed for production. The first Atocha prospect will be tested by re-entering the HM Brian No.1 well.

The Atocha Project area is prospective for oil and gas with a target size of 1.2 Trillion Cubic Feet Equivalent (TCFE) of recoverable gas equivalent for the entire acreage block.

Pryme has spent over US$1.4 million on generating the Atocha project including building a significant land position, carrying out technical reviews and planning a program to test the project. Pryme is the operator of the project and has a 25% working interest in the HM Brian No.1 re-entry, half of which is free-carried, and a 3% overriding royalty on production.

For further information please visit our website at www.prymeoilandgas.com or contact:

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Pryme Oil and Gas Limited is an Australian oil and natural gas producer and explorer with interests in the U.S., the world's biggest oil market. The company has an exceptional suite of exploration projects focused on Louisiana, the fifth-largest oil-producing state in the U.S. These projects are funded in part by existing cash flow. Pryme's management team has over 75 years of energy industry experience and has uniquely focused local knowledge, underscored by the proven track records of its managers and directors. Directors of the company are George Lloyd (Non Executive Chairman), Justin Pettett (Managing Director) and Ryan Messer (Executive Director).

The geological information in this announcement has been reviewed by Stanley R. Clowers (a professional Petroleum Geologist residing in the State of Texas in the United States of America) who has over 40 years domestic and international experience in petroleum geology, drilling, well completions and production operations. Mr. Clowers reviewed this announcement and consents to the inclusion of the geological and engineering descriptions and any estimated hydrocarbons in place or flow rates in the form and context in which they appear. Any resource estimates contained in this report generally conform to the guidelines and definitions set out by the Society of Petroleum Engineers, further information on which is available at www.spe.org.