

1 February 2016

## December 2015 Quarterly Activity and Cashflow Report

### Significant Developments

- Cash position at 31 December declined to \$2.8M
- Previous board offers nearly \$1M in redundancies with \$818K remaining unpaid
- Non-binding offer of US\$2.2M (A\$3.2M) received for Capitola Project
- Additional leasing at Newkirk results in additional 2P Reserves to 5MMBoe
- Experienced new directors appointed in January 2016
- Former Chairman, CEO and COO resign from board
- US production averaged 115 BOE/day – a reduction of 9% from the previous Quarter
- New board to review existing assets and strategy as priority
- Reserves and asset carrying values under review

### Corporate

It has been another difficult quarter (and year) for Pryme Energy. During the December Quarter the previous board decided to make the positions of the CEO, the CFO and the COO redundant. This decision will trigger significant payments totaling nearly \$1M and occurred against the backdrop of the Company having received a Section 249D Notice to remove all directors including the CEO and COO.

The former Chairman, Mr. George Lloyd, announced his resignation from Pryme's board effective 31 December 2015. Mr. Justin Pettett and Mr. Ryan Messer resigned from the board on 12 January 2016 with Mr. Lanskey remaining on the board.

The former directors have been replaced with experienced and successful energy executives with a strong track record of wealth creation. The new directors are Mr. Stephen Mitchell, Mr. Don Beard and Mr. Ray Shorrocks. Details of the new directors and their relevant experience were announced to the ASX on 13 January 2016. The new board will undertake a thorough technical and commercial assessment of all Pryme's existing assets and commercial arrangements and review its strategies to try and recover some of the value lost over previous years.

### Production

Quarterly Sales Report (net to Pryme)

| Project              | December 2015 Quarter |                          | Calendar Year        |                          |
|----------------------|-----------------------|--------------------------|----------------------|--------------------------|
|                      | Natural Gas<br>(Mcf)  | Oil/Condensate<br>(Bbls) | Natural Gas<br>(Mcf) | Oil/Condensate<br>(Bbls) |
| Four Rivers*         | 0                     | 1,806                    | 0                    | 7,350                    |
| Capitola             | 10,460                | 7,065                    | 35,323               | 29,088                   |
| <b>Total**</b>       | <b>10,474</b>         | <b>8,871</b>             | <b>35,379</b>        | <b>36,438</b>            |
| <b>Total (BOE**)</b> | <b>10,617</b>         |                          | <b>42,335</b>        |                          |

| December 2015 Quarter average daily sales (net to Pryme) |                | Increase (decrease)<br>from previous<br>Quarter |
|----------------------------------------------------------|----------------|-------------------------------------------------|
| Oil                                                      | 96 Bbls        | (11%)                                           |
| Natural Gas                                              | 114 Mcf        | (9%)                                            |
| <b>BOE**</b>                                             | <b>115 BOE</b> | <b>(9%)</b>                                     |

*\* 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 sales net to Pryme for the December Quarter declined from the September Quarter sales by approximately 11%, natural gas production/sales declined 9% over the previous Quarter. The decline in sales is mainly attributable to the Capitola Oil Project as a result of normal decline and minor issues with paraffin in the Mahaffey Bishop well. The issues have been resolved and a chemical treatment program initiated on both the Mahaffey Bishop and McCain wells to reduce the further occurrence of paraffin problems.

## Financial

Due to the large redundancy payments agreed to be made by the previous board there has been, and will continue to be, a further deterioration in the Company's cash position which stood at \$2.85M on 31 December 2015 with yet a further \$818K in redundancies left to pay.

During the Quarter, the Company acquired additional acreage in the Newkirk Project and participated in a 3D seismic data acquisition at a total cost of \$670K.

Cash receipts from oil and gas sales for the Quarter from the Capitola and Four Rivers projects totaled \$600K reflecting sustained production but lower oil prices. Despite low commodity prices, the Company recorded a positive operating net cashflow for the period (excluding capital expenditure) of approximately \$60K.

## Capitola Oil Project – Fisher and Nolan Counties, Texas

Pryme has received a non-binding cash offer for the Capitola Project of US\$2.214M (A\$3.16M). The offer is subject to several matters including due diligence, final documentation and Pryme board, regulatory and shareholder approvals. There remains significant uncertainty as to whether the non-binding offer will result in a firm offer and whether the transaction will complete, however the board will continue to work with the US offeror while consulting with shareholders and regulators.

The new board has commenced a review of the Capitola Project and has noted that it has consumed significant quantities of shareholder cash and has been a technical and commercial failure. The current carrying value of this asset is approximately A\$4.5M and the new board expects this asset to be significantly impaired in the year-end accounts once appropriate assessments are undertaken by the reconstituted Audit Committee.

Pryme has previously reported reserve estimates for Capitola (first announced 13 August 2015). No doubt these reserves will be negatively impacted by significant falls in oil prices since the date of that report (1 July 2015). Should the asset not be sold, a new independent reserve report will be commissioned.

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).

#### **Newkirk Project, Kay County Oklahoma (100% WI 81.25%NRI)**

As at 31 December 2015, Pryme held 100% WI and 81.25% NRI in 4,049 acres located in Kay County, Oklahoma near Ponca City. During the Quarter an additional 1,729 acres were leased under favourable commercial terms with a three year primary term and two year bonus term.

Oil and gas leases held by Pryme are contiguous with an additional 4,936 acres held by Empire Energy Group (ASX: EEG). Under a joint operating agreement with Empire (as Operator) the two companies have agreed to the further development of the combined acreage (8,985 acres) on a 50/50 basis.

During the Quarter, the Operator undertook a small seismic acquisition program on a portion of the project acreage. Interpretation of the data continues. The estimated cost for Pryme’s share of the geophysical review is US\$125K.

On 27 November 2015, Pryme reported an updated Independent Reserve Report for the Project. The Reserves estimates are shown in the table below and are for 2P (Probable) Reserves only; 3P (Possible) Reserve and Contingent Resources have not been estimated. These reserves will be reviewed by the new board as well as the carrying value of the asset.

| Newkirk Project  |                                            |            |                    |                         |
|------------------|--------------------------------------------|------------|--------------------|-------------------------|
| Reserve Category | Net Remaining Reserves<br>1 November, 2015 |            |                    |                         |
|                  | # Wells                                    | Oil (MBBL) | Natural Gas (MMCF) | Oil Equivalent (MBOE)** |
| Probable (2P)    | 101                                        | 2,500      | 15,967             | 5,118                   |
| Total            | 101                                        | 2,500      | 15,967             | 5,118                   |

The Reserves were reviewed by Keith Drennen and J.P. Dick of Pinnacle Energy Services LLC (Pinnacle), Registered Engineers in the state of Oklahoma in accordance with the Society of Petroleum Engineers, 2007 Petroleum Resources Management System.

This Project will undergo an evaluation by the board to determine whether it offers the potential to add value to the Company.

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

The December Quarter oil sales of 1,806 barrels (20 Bbls/day net to Pryme) were higher than the previous Quarter. This is mainly attributable to the result of the recent workovers performed on several of the wells. 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.

## 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 31 December 2015              |
|-------------|----------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------|-----------------------------------------------------------|
| Newkirk     | Kay and Noble Counties, Oklahoma                                                       | 1,407                                                            | 4,049 acres                     | 100%                                                      |
| Capitola    | Nolan and Fisher Counties, Texas                                                       | -                                                                | 3,500 acres<br>(Shallow Rights) | 100% in each well<br><br>37.5% in the undeveloped acreage |
|             |                                                                                        | -                                                                | 2,334 acres<br>(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                                  |

For further information please contact:

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ASX Code: PYM    OTCQX Code: POGLY

## 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        |           |                                              |

# 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")

31 December 2015

### Consolidated statement of cash flows

| Cash flows related to operating activities        |                                                            | Current quarter<br>\$A'000 | Year to date<br>(12 months)<br>\$A'000 |
|---------------------------------------------------|------------------------------------------------------------|----------------------------|----------------------------------------|
| 1.1                                               | Receipts from product sales and related debtors            | 604                        | 2,321                                  |
| 1.2                                               | Payments for (a) exploration & evaluation                  | (630)                      | (5,230)                                |
|                                                   | (b) development                                            | -                          | -                                      |
|                                                   | (c) production                                             | (165)                      | (1,124)                                |
|                                                   | (d) administration                                         | (413)                      | (1,863)                                |
| 1.3                                               | Dividends received                                         | -                          | -                                      |
| 1.4                                               | Interest and other items of a similar nature received      | 6                          | 29                                     |
| 1.5                                               | Interest and other costs of finance paid                   | -                          | -                                      |
| 1.6                                               | Income taxes paid                                          | -                          | -                                      |
| 1.7                                               | Other (provide details if material)                        | 10                         | (53)                                   |
| <b>Net Operating Cash Flows</b>                   |                                                            | <b>(588)</b>               | <b>(5,920)</b>                         |
| <b>Cash flows related to investing activities</b> |                                                            |                            |                                        |
| 1.8                                               | Payment for purchases of:                                  |                            |                                        |
|                                                   | (a) prospects                                              | -                          | -                                      |
|                                                   | (b) equity investments                                     | -                          | -                                      |
|                                                   | (c) other fixed assets                                     | -                          | (17)                                   |
| 1.9                                               | Proceeds from sale of:                                     |                            |                                        |
|                                                   | (a) prospects                                              | -                          | 99                                     |
|                                                   | (b) equity investments                                     | -                          | -                                      |
|                                                   | (c) other fixed assets                                     | 11                         | 11                                     |
| 1.10                                              | Loans to other entities                                    | -                          | (200)                                  |
| 1.11                                              | Loans repaid by other entities                             | -                          | -                                      |
| 1.12                                              | Other (provide details if material)                        | -                          | -                                      |
| <b>Net investing cash flows</b>                   |                                                            | <b>11</b>                  | <b>(107)</b>                           |
| 1.13                                              | Total operating and investing cash flows (carried forward) | <b>(577)</b>               | <b>(6,027)</b>                         |

**Appendix 5B**  
**Mining exploration entity quarterly report**

|      |                                                                                                    |       |         |
|------|----------------------------------------------------------------------------------------------------|-------|---------|
| 1.13 | Total operating and investing cash flows (brought forward)                                         | (577) | (6,027) |
| 1.14 | <b>Cash flows related to financing activities</b><br>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)                                                                | -     | -       |
|      | <b>Net financing cash flows</b>                                                                    | -     | -       |
|      | <b>Net increase (decrease) in cash held</b>                                                        | (577) | (6,027) |
| 1.20 | Cash at beginning of quarter/year to date                                                          | 3,542 | 8,440   |
| 1.21 | Exchange rate adjustments to item 1.20                                                             | (116) | 436     |
| 1.22 | <b>Cash at end of quarter</b>                                                                      | 2,849 | 2,849   |

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

|                                                                       | Current quarter<br>\$A'000 |
|-----------------------------------------------------------------------|----------------------------|
| 1.23 Aggregate amount of payments to the parties included in item 1.2 | 158                        |
| 1.24 Aggregate amount of loans to the parties included in item 1.10   | -                          |
| 1.25 Explanation necessary for an understanding of the transactions   |                            |

**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

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

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

### Estimated cash outflows for next quarter

|                                | \$A'000       |
|--------------------------------|---------------|
| 4.1 Exploration and evaluation | -             |
| 4.2 Development                | -             |
| 4.3 Production                 | -             |
| 4.4 Administration             | 1,100*        |
| <b>Total</b>                   | <b>1,100*</b> |

\* Includes one-off redundancy payments of \$818K

### Reconciliation of cash

| Reconciliation of cash at the end of the quarter<br>(as shown in the consolidated statement of cash<br>flows) to the related items in the accounts is as<br>follows. | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                                                                                                                                         | 2,849                      | 2,849                       |
| 5.2 Deposits at call                                                                                                                                                 | -                          | -                           |
| 5.3 Bank overdraft                                                                                                                                                   | -                          | -                           |
| 5.4 Other (provide details)                                                                                                                                          | -                          | -                           |
| <b>Total: cash at end of quarter (item 1.22)</b>                                                                                                                     | <b>2,849</b>               | <b>2,849</b>                |

### Changes in interests in mining tenements and petroleum tenements

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

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+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

|     |                                                     |         |                                                                                                                      |      |      |
|-----|-----------------------------------------------------|---------|----------------------------------------------------------------------------------------------------------------------|------|------|
| 6.2 | Interests in mining tenements acquired or increased | Newkirk | Joint Lease<br><br>Acquisition of 1,407 net acres. Pryme's total interest in the Newkirk Project is 4,049 net acres. | 100% | 100% |
|-----|-----------------------------------------------------|---------|----------------------------------------------------------------------------------------------------------------------|------|------|

**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  | <b>Preference</b>                                                                                                                                              | NA            | NA            | NA                                            | NA                                               |
| 7.2  | <b>*securities</b> (description)<br>Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions |               |               |                                               |                                                  |
| 7.3  | <b>*Ordinary securities</b>                                                                                                                                    | 1,007,380,397 | 1,007,380,397 | Various                                       | Fully paid                                       |
| 7.4  | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs                                                  |               |               |                                               |                                                  |
| 7.5  | <b>*Convertible debt securities</b> (description)                                                                                                              | Nil           | -             | -                                             |                                                  |
| 7.6  | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted                                                  |               |               |                                               |                                                  |
| 7.7  | <b>Options</b> (description and conversion factor)                                                                                                             | 481,025,026   |               | Exercise price<br>\$0.02                      | Expiry date<br>23 July 2016                      |
| 7.8  | Issued during quarter                                                                                                                                          | 22,684,510    | -             | -                                             | -                                                |
| 7.9  | Exercised during quarter                                                                                                                                       | -             | -             | -                                             | -                                                |
| 7.10 | Expired during quarter                                                                                                                                         | -             | -             | -                                             | -                                                |

+ See chapter 19 for defined terms.



|      |                                     |    |  |
|------|-------------------------------------|----|--|
| 7.11 | Debentures<br>(totals only)         | NA |  |
| 7.12 | Unsecured<br>notes (totals<br>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:

  
(Director/~~Company secretary~~)

Date: **1 February 2016**

Print name: Stephen Mitchell

## 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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