

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 (Mcf)	Oil/Condensate (Bbls)	Natural Gas (Mcf)	Oil/Condensate (Bbls)
Four Rivers*	0	1,806	0	7,350
Capitola	10,460	7,065	35,323	29,088
Total**	10,474	8,871	35,379	36,438
Total (BOE**)	10,617		42,335	

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

* 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	# Wells	Net Remaining Reserves 1 November, 2015		
		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 (Shallow Rights)	100% in each well 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

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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 \$A'000	Year to date (12 months) \$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)
Net Operating Cash Flows		(588)	(5,920)
Cash flows related to investing activities			
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)	-	-
Net investing cash flows		11	(107)
1.13	Total operating and investing cash flows (carried forward)	(577)	(6,027)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(577)	(6,027)
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	(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	Cash at end of quarter	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 \$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 \$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	-
4.2 Development	-
4.3 Production	-
4.4 Administration	1,100*
Total	1,100*

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

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	2,849	2,849
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,849	2,849

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	-	-	-	-

+ 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 Acquisition of 1,407 net acres. Pryme's total interest in the Newkirk Project is 4,049 net acres.	100%	100%
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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	NA	NA	NA	NA
7.2	*securities (description) Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities	1,007,380,397	1,007,380,397	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)	481,025,026		Exercise price \$0.02	Expiry date 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 (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:


(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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