

14 March 2011

## **Pryme Secures Funding to Drill its Second Turner Bayou Chalk Well**

Pryme Oil and Gas Limited (Pryme) is pleased to advise that it has completed a funding agreement with its major shareholder, Belmont Park Investments Pty Ltd (BPI), to raise A\$4.0 million through an unsecured convertible note facility.

The funds will be used to progress Pryme's Turner Bayou Chalk project and, more specifically, to fund the Company's share of drilling costs for the second well in this project. Drilling of the second well is planned to begin in May.

"Turner Bayou is a company making project for Pryme. The mechanical issues encountered with the first Turner Bayou Chalk well have been addressed and an improved well design and completion plan are in place to reduce the likelihood of similar problems with our second well. Based on the geological results of the Deshotels 20-H No.1 well, the Company has generated a development model which provides for up to 30 wells to be drilled in the project. Under this model positive net cash flow for the project will be achieved with the completion of the fourth well; following this the project is expected to be self-funding. The project will transform Pryme into a profitable oil and gas producer," said Justin Pettett, Pryme's Managing Director.

The convertible note facility is in two parts:

- the first tranche of A\$2.5 million involves the issue of a A\$2.5 million convertible note (Convertible Note 1) which must be fully drawn down by 30 May 2011 and has a term of 12 months following first drawdown. The note may be converted in part or in full into fully paid ordinary shares of the Company at a price of 30 cents per share, and
- the second tranche of A\$1.5 million involves a loan from BPI (BPI Loan), which must be drawn down by 30 May 2011. The BPI Loan may, at Pryme's election, be replaced with a A\$1.5 million convertible note (Convertible Note 2), subject to such issue falling within Pryme's 15% placement capacity, which it will do if any 15% placement capacity resolutions to be put forward at the Company's forthcoming AGM are passed. Convertible Note 2 has a term of 12 months following first drawdown of funds under Convertible Note 1 and may be converted in part or in full into fully paid ordinary shares of the Company at a price of 30 cents per share.

The key terms of the Convertible Notes and the BPI Loan are outlined below.

"We are confident that Turner Bayou will create great value for the Company and its shareholders and we will keep investors informed as work on the second well progresses," Justin Pettett added.

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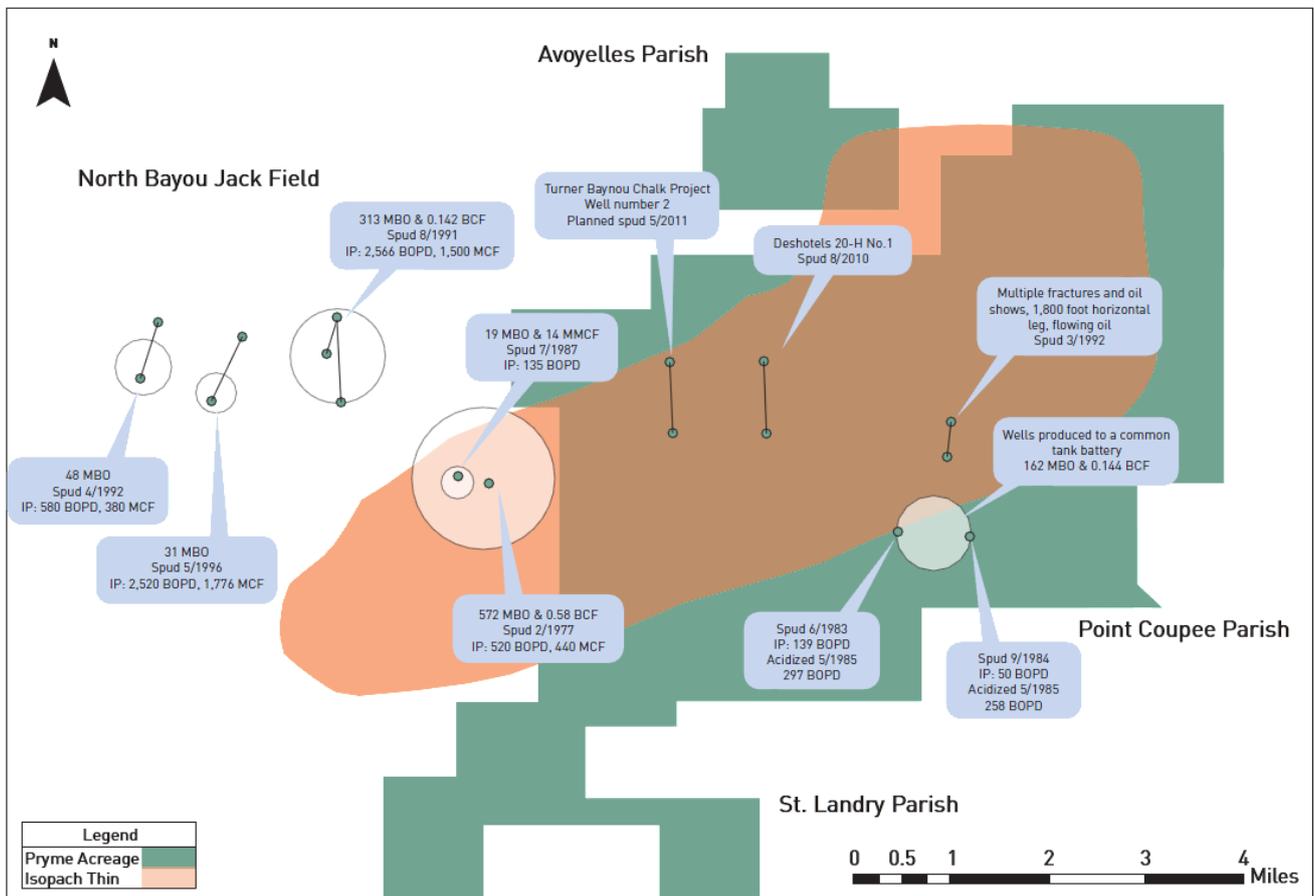
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### About Turner Bayou 3D Seismic Project and the Deshotels 20-H No.1 Well

The Deshotels 20-H No.1 well, in the Turner Bayou Chalk project in North Bayou Jack Field, Avoyelles Parish Louisiana is the first deep well to be drilled within the Turner Bayou 3D seismic survey. The well was drilled to a depth of 16,400 feet (5,000 metres) vertically with a 3,755 feet (1,144 metre) horizontal leg through the Austin Chalk formation which is predominantly oil bearing in this region. The well location was confirmed using high resolution 3D seismic data from a survey carried out in 2007 and data from surrounding well bores.

The production potential of the Austin Chalk formation within the Turner Bayou 3D seismic survey was identified from several vertical wells which were drilled in the period from the mid 1970's to the mid 1990's and include one of the best vertical wells in the trend which produced 570,000 barrels of oil and 0.58 Bcf of natural gas. Interpretation of the seismic data indicates that an erosional event occurred during the Upper Cretaceous age and caused the chalk to thin from 1,000 feet to 450 feet in some sections (see map below). These thinner chalk sections could potentially have made the chalk more likely to fracture than thicker sections and to provide a better hydrocarbon reservoir. Extensive fracturing and associated oil and gas, which were evident in the recently drilled Deshotels 20-H No.1 well, were also identified in the only other horizontal well drilled in the area of Pryme's seismic shoot (drilled in 1992). It appears that these geological conditions have created a productive section of the chalk which is not regional, but local. As a result, Pryme's Turner Bayou Chalk project is a resource style oil play with conventional production and drainage characteristics. Such plays are becoming increasingly scarce in the United States.

#### Turner Bayou Austin Chalk Isopach Thin



## Key Terms of Convertible Notes and BPI Loan

The key terms of the Convertible Notes are as follows:

- The Convertible Notes fall within two separate tranches (together the Convertible Notes):
  - The A\$2.5 million Convertible Note 1, which has been issued under the Company's 15% placement capacity, and
  - The A\$1.5 million Convertible Note 2, which may be issued to replace the BPI Loan subject to such issue falling within Pryme's 15% placement capacity, which it will do if any 15% placement capacity resolutions to be put forward at the Company's forthcoming AGM are passed.
- The maturity date of the Convertible Notes is 12 months after the first drawdown of Convertible Note 1.
- Interest payable on the Convertible Notes is 9.381% per annum payable on maturity.
- The facility fee for each of Convertible Note 1 and the BPI Loan is 2.5%. No additional facility fee is payable if the BPI Loan is replaced with Convertible Note 2.
- The principal, interest and facility fee for the Convertible Notes may be converted into fully paid ordinary shares of the Company at BPI's election at any time following initial drawdown of Convertible Note 1 up to the maturity date, at a price of A\$0.30 per share (with such issue price being adjusted in the event that the Company reorganises its share capital or undertakes a rights issue);
- The maximum number of shares in the capital of the Company that can be issued to BPI under Convertible Notes is 14,917,467 for principal, interest and facility fees.
- The Convertible Notes are unsecured.
- The Convertible Notes cannot be repaid prior to maturity unless Pryme raises \$5,000,000 or more in new equity at a share price equal to or greater than A\$0.30 per ordinary share at any time prior to maturity, in which case Pryme can elect to repay the Convertible Notes either through (at BPI's election) the issue of shares, repayment in cash or a combination of the two.
- The Company has given various warranties, covenants and undertakings to BPI under the Convertible Notes in relation to its activities.
- The Convertible Notes become immediately due and payable on certain events of default.

The key terms of the BPI Loan, which shall only apply if Pryme does not replace the BPI Loan with Convertible Note 2, are as follows:

- The principal under the BPI Loan is A\$1.5 million;
- The maturity date of the BPI Loan is 12 months from initial drawdown of Convertible Note 1;
- The interest payable on the BPI Loan is 14% per annum, compounding daily;
- The facility fee on the BPI Loan is 2.5% of the principal; and
- All amounts owing under the BPI Loan can be replaced at any time prior to 30 May 2011 by the issue of Convertible Note 2.