

18 April 2011

Annual General Meeting 2011 Chairman's Address

The Turner Bayou and Catahoula Lake projects were the focus of most of our efforts in 2010. These are our two core projects and will continue to attract considerable effort over the next few years. Each of these projects has the potential to make a significant contribution to the value of the Company. Turner Bayou has the potential to lift our oil production from the present 150 barrels per day to several thousand barrels per day. Catahoula Lake has the potential to steadily lift production at a relatively low cost and risk.

We commenced drilling our first Turner Bayou well in 2010 and completed it early this year. While the well has not met our production expectations, due to mechanical issues during completion, it has confirmed the basis on which we have chosen to thoroughly explore the Austin Chalk formation within our leasehold. The well also provided tantalizing oil shows from the Wilcox formation, which is above the chalk, and the Eagle Ford formation immediately below the chalk; once our chalk exploration program is well-established we expect to test both of these formations in greater detail.

The first Turner Bayou well is currently producing at about 200 barrels of oil and 150 Mcf of gas per day; we expect each successfully completed chalk well should initially produce over 1,000 barrels per day of oil of which Pryme's share would be over 300 barrels per day. A considerable effort has gone into evaluating the technical difficulties which were encountered with the first well and steps have been taken to avoid these in future wells. We are advanced in preparing for the next well and expect to spud next month.

Current planning for the Turner Bayou project contemplates a fully developed field of over 30 Austin Chalk wells at a spacing of around 640 acres, we expect to be well advanced with our third Austin Chalk well by the end of this year and then drill up to 6 new wells during 2012, increasing to 12 new wells per year in 2013 until fully developed. We also expect to re-enter the first Turner Bayou Chalk well during the year and take further steps to remediate it and lift its production.

Austin Chalk wells typically show high initial production followed by a rapid decline to a lower level that is generally sustainable over many years. Our planning shows that, by the fourth well, we should have a project which is creating substantial free cash flow and is self-sustaining from a capital cost point of view.

The Catahoula Lake project stalled during the year as the result of the bankruptcy of our joint venture partner and operator. As a result, Pryme assumed responsibility for putting the equipment into a safe operable condition and drilling its first well on the lake. The Catahoula Lake interest of our joint venture partner, together with additional Catahoula Lake production in which we did not own an interest, were acquired by Sanchez Resources, LLC ("Sanchez") towards the end of last year and we have now reached agreement in principle with Sanchez to merge all of our Catahoula Lake assets, appoint Sanchez as operator and function as an integrated joint venture. The remainder of 2011 will be spent on detailed geological interpretation of the lake based on the wealth of history from nearby onshore exploration as well as the sparser lake exploration which has been carried out over the past 60 years. We also plan to pick some of the low hanging fruit in the form of workovers of existing wells and drilling at least one new well in an onshore location on the edge of the lake before year end. When the lake becomes available for barge rig exploration in early 2012 we expect to have a comprehensive exploration program ready to go.



As the Turner Bayou and Catahoula Lake projects become better established through the year we will increase our efforts to identify and evaluate new projects with the guiding objective of continuing to add value for the benefit of shareholders.

In 2010 we conducted two capital raisings to raise \$3.7 million. These were largely driven by the need to fund the first Turner Bayou well and be well-placed to participate in the second and subsequent wells in that project. The capital raisings were carried out with the objectives of minimizing dilution of existing shareholders' interests and also providing existing shareholders with an opportunity to participate. Earlier this year we also raised \$4 million through an unsecured convertible note facility; the notes have a term of 12 months, the interest rate is just under 9.4% and they are convertible into ordinary shares at 30 cents per share. The convertible notes were issued to further supplement working capital and support our participation in the Turner Bayou project. We chose this approach to funding because, based on our expectations for both Turner Bayou and Catahoula Lake, it was felt that an issue of notes on these terms was cheaper and more in shareholders' best interests than equity.

The resolutions to be considered by this Annual General Meeting include approval of the issues of shares and convertible notes in connection with the capital raisings I have just mentioned, the granting of performance rights to the Chief Executive Officer and the Chief Operating Officer as the "at risk" portion of their remuneration for 2011, amendments to the company's constitution to bring it into line with the current form of constitution for listed companies in Australia, the appointment of an auditor and the change of Company name to Pryme Energy Limited.

The resolution regarding the issue of performance rights seeks shareholder approval to the issue of the maximum number of performance rights that may be earned by the executive directors during the year. The actual number of performance rights that will be issued will depend on their effectiveness in increasing production and increasing the overall value of the company. The current remuneration policy of the Company provides that one third of the CEO's total salary package is at risk and a similar amount at risk for the COO. The extent to which the at risk portion is earned is equally attributable to increases in production and increases in the value of the company over 2011. For the executives to qualify for any portion of their at risk remuneration the company has to increase production year on year by at least 30% or achieve share price performance at least equivalent to the ASX Energy Index. For the executives to qualify for the maximum amount payable in at risk remuneration the Company has to increase production by at least 50% over the previous year and see share price performance exceed that of the Energy Index by at least 50%. In addition, the performance rights are convertible into equity in the Company and require the executive to continue employment with the company for at least 1 year to qualify and at least two years to receive the full allocation that has been earned. We believe that it is in the Company's best interests to link executive remuneration to performance and that the scheme which I have just outlined does this effectively.

The proposal to appoint PriceWaterhouseCoopers as auditors of the Company reflects the expected increased complexity of the business as we progress with the Turner Bayou project and achieve the expected levels of success, as well as the fact that all of our production and exploration activities are located in the United States. I believe that our retiring auditor, Moore Stephens, has served the Company and its shareholders well and want to publicly express my gratitude for their involvement in the business over the past 5 years.

The resolution to change the name of the Company to Pryme Energy Limited reflects the immense global importance of energy and the Company's desire to be recognized as a participant in this important sector.



The board supports all of these resolutions and I encourage shareholders to vote in favour of them.

Before moving onto the business of the meeting I wish to record my appreciation of the terrific efforts by all employees over the past year. I want to make particular mention of Justin Pettett, our CEO, Ryan Messer our COO, and Sandra Gaffney our Chief Financial Officer. There have been many challenges and they have successfully tackled them and made a great contribution to positioning the company well for 2011 and subsequent years.

I also wish to thank shareholders for their support and I repeat our absolute commitment to delivering value on their investments.

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