HELMSEC GLOBAL SECURITIES

14 MAY 2014

Pryme Energy Limited (ASX:PYM)

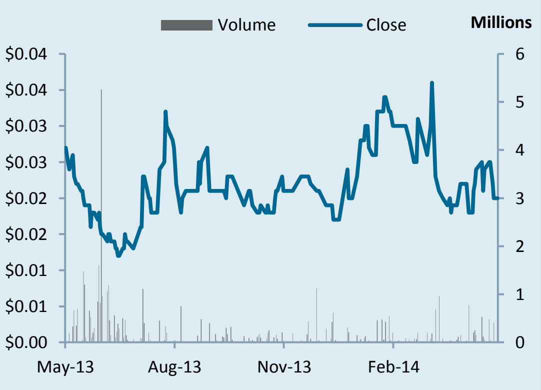
PRODUCTION | CONVENTIONAL OIL | SHALE OIL POTENTIAL

COMPANY DATA

ASX Code	**PYM**
Recommendation	**SPECULATIVE BUY**
Share Price (A$)	**$0.02**
Ordinary Shares on Issue (m)	**343.05**
Options on Issue (m)	**nil**
Market Capitalisation (A$m)	**$6.9**
Cash at 31-Mar-14 (A$m)	**$0.97**
Cash from rights issue (A$m)	**$0.9**
Pro forma cash (31-Mar-14)	**$1.87**
Non-recourse debt (US$m)[1]	**$6.5**
Enterprise Value (A$m)[2]	**$5.0**

1. Non-recourse debt is ring-fenced solely to Turner Bayou asset
2. Excluding USD non-recourse debt
3. Assumed AUD/USD of 0.91

SHARE PRICE PERFORMANCE



BOARD & MANAGEMENT

George Lloyd	Non-Exec Chairman
Justin Pettett	Managing Director
Ryan Messer	Executive Director
Greg Short	Non-Exec Director
Swapna Keskar	Company Secretary

MAJOR SHAREHOLDERS

Panorama Ridge	11.2 %
Belmont Park Investments	11.1 %
Anthony Rispoli	3.2 %
Vassallo Family Super Fund	2.0 %
Board members	7.0 %

Pryme Energy – Initiating Coverage with a SPECULATIVE BUY

SUMMARY

Pryme Energy Limited ("Pryme") is an ASX listed oil and gas E&P company focused on onshore oil development and production in North America. The Company is currently producing ~70 boe per day (net) from conventional operations in Louisiana USA which have consistently generated positive cash flow.

Pryme's near-term price appreciation is likely to be driven by its acquisition via farm-in of the Capitola Oil Project in the oil prolific Permian Basin, Texas, USA. Pryme is targeting, firstly, two oil fields (Sweetwater and Claytonville) that have previously produced c.6 MMbbl of oil, and secondly, significant value-enhancement from the Cline shale horizon in the fields where US companies, such as Devon Energy, are spending significant amounts on Capitola's boundaries to 'unlock' the Cline shale's potential (which has been compared to the Eagle Ford shale in prospectivity).

We initiate coverage on Pryme as a **SPECULATIVE BUY**.

KEY POINTS

- Pryme's Capitola acquisition (9,333 gross acres) via farm-in requires lease payments and drilling 10 wells over a 2 year program to earn a 75% W.I. (56.25% NRI) in non-Cline conventional Permian oil horizons and a 50% W.I. (37.5% NRI) in the Cline shale horizon. Pryme is the operator of Capitola.
- To commence this program, Pryme is currently raising equity capital under the shortfall to its rights issue to fund the 2014 well program. Helmsec Global Capital Limited is the lead manager for this shortfall placement. Earlier this year Pryme raised A$0.9 million under its 1 for 1 rights issue.
- The first component of Pryme's strategy is to undertake a vertical well program at Capitola for 200+ well locations targeting horizons that previously produced oil and new prospective oil horizons. The intended funding path for rolling out this program is predominantly non-equity sources.
- The second component relates to the Cline shale horizon at Capitola, which Pryme does not intend to horizontally drill, instead is strongly encouraged by results from, and will await further positive results from such companies as Devon Energy, Laredo, and Range who are undertaking Cline shale evaluation programs, before determining Pryme's value exploitation approach.
- Pryme's business combines the current Louisiana production, a lower risk/lower cost vertical oil development from previously producing fields (with multi-stacked horizons), and the upside potential from an early mover advantage in the NE Cline shale region.

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COMPANY STRATEGY

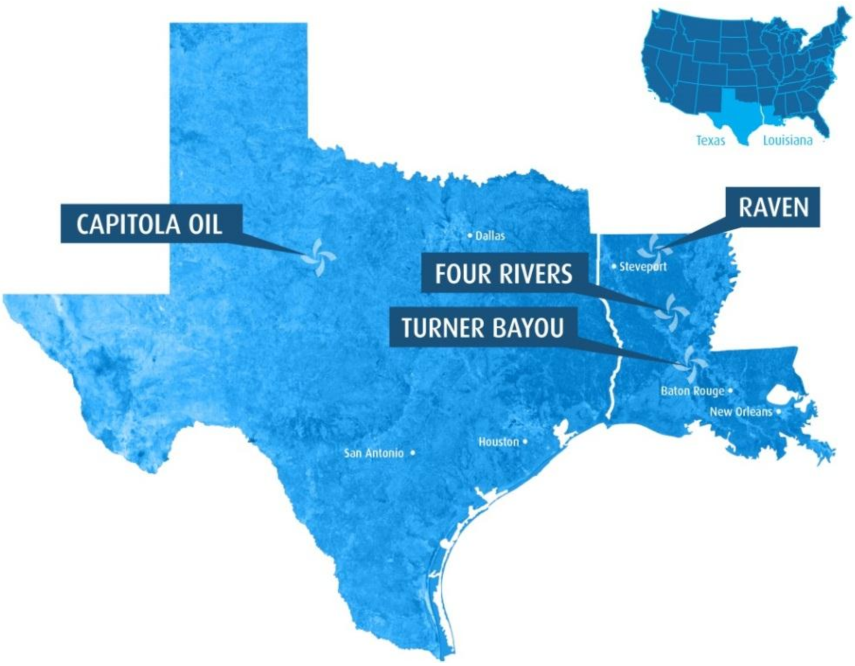
The Company's strategy is to:

- Continue and enhance existing production from Louisiana (Four Rivers project and Raven);
- Significantly reduce the current ownership of Turner Bayou, including assignment of the related non-recourse debt, resulting in minimal ongoing exposure to Turner Bayou;
- Exploit the previously produced oil horizons at Capitola through a down-spacing and step-out vertical well program for potentially up to 200 well locations based on 40 acre unit spacing. For each vertical well, seek to commingle production from all prospective horizons given the known multi-stacked nature of Capitola. The potential for commingling will be assessed through coring and test work in the initial wells drilled;
- Create value from the Cline shale horizon at Capitola by allowing other nearby operators (including Devon, Laredo and Range) to 'prove-up' the Cline (rather than Pryme pursuing high capital horizontal drilling and multi-stage frac completions) and then determine the path to value exploitation;
- As a medium term endeavour, and without distraction from Capitola's development, continue management's screening and assessment of other growth assets and opportunities that fit with Pryme's risk/reward profile and size.

PROJECT LOCATIONS

The Company's key assets are located in the Gulf States of USA:

- Along the Eastern Shelf of the Permian Basin, Texas – conventional and unconventional exposure at the Capitola project in the oil prolific Permian basin (earning 75% W.I. and 50% W.I. in Cline Shale horizon)
- Louisiana – oil and gas production from Four Rivers (8-25% W.I.) and Raven (35% W.I.) projects



Pryme project locations throughout USA

Figure 1: Pryme's Texas and Louisiana projects.

BOARD & MANAGEMENT

George Lloyd *– Non-Executive Chairman*

Mr Lloyd has more than 30 years' senior management and listed company board experience in the resources and energy sectors with a focus on business development, corporate strategy, M&A and exploration management. George's directorships include Ausenco Limited, an ASX listed company engaged in the provision of engineering services to the global resources industry.

Justin Pettett *– Managing Director and CEO*

Mr Pettett is the founder of Pryme and has over nineteen years' experience at a Managing Director level of medium sized businesses, the last thirteen specifically in the U.S. oil and gas industry. He has funded and drilled over 140 Wilcox trend wells throughout Central Louisiana resulting in the discovery of new oil fields. Along with conventional natural gas wells throughout Oklahoma, more specifically the co-management of the development of a 27 well CBM field also in Oklahoma.

Ryan Messer *– Executive Director and COO*

Mr Messer is the founder of Pryme and has twenty years of experience in business, the last thirteen of which have been in the energy sector, in oil and gas exploration and production. His main focus has been in the area of oil and gas production economics, risk management, as well as managing field and land rig operations and certain engineering based operations gained from operating several mid-sized US oil and gas projects across several basins.

Greg Short *– Non-Executive Director*

Mr Short has a strong technical grounding in exploration development and production geoscience, exploration operations, Joint Venture management, Government relations, budgeting, contract and project management and people management. Mr Short worked for Esso/Exxon Mobil for 33 years in production and operations and 15 years in senior management positions. Mr Short is a non-executive director of MEO Australia Limited and Po Valley Energy Ltd.

CAPITOLA PROJECT

The Capitola project is located in the Eastern Permian basin, mid Texas in Fisher and Nolan counties between the towns of Midland and Abilene. The 9,333 gross acres land package comprises the Sweetwater and Claytonville oil fields that previously produced several million barrels of oil from approximately 150 well bores.

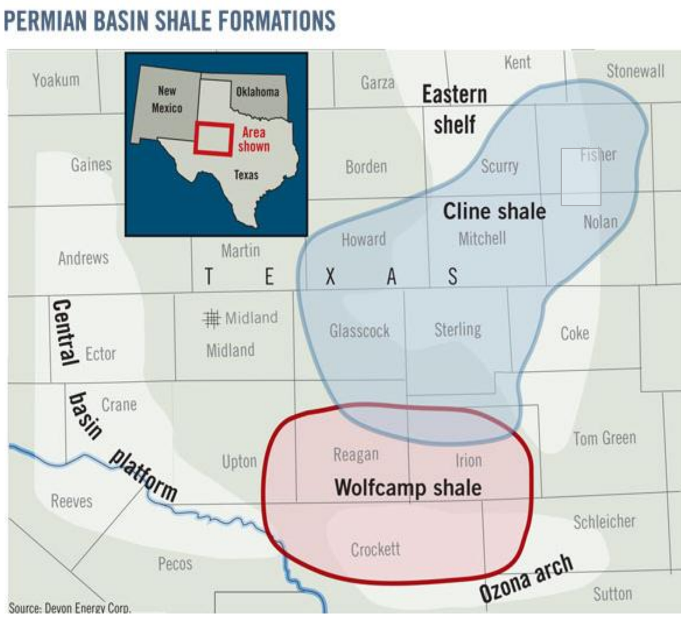


Figure 2: Capitola Oil Project acreage shown within the blue rectangle in Fisher and Nolan Counties, Texas.

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The Permian Basin is an attractive location given the following reasons:

- It is the most active basin in the United States and hosts the largest recoverable resource in the U.S.
- Predictable vertical well economics – "stacked pays"
- Increased use of enhanced recovery practices has substantially increased U.S. oil production making up 71% of all oil production in Texas and 17% of total U.S. production
- According to consultants, Bentek Energy, production in the Permian Basin is estimated to grow 60% between now and 2016, reaching a total of 1.8 million barrels per day

The stratigraphy of the Eastern Permian region where Capitola is located also provides Pryme with the opportunity to exploit numerous secondary targets.

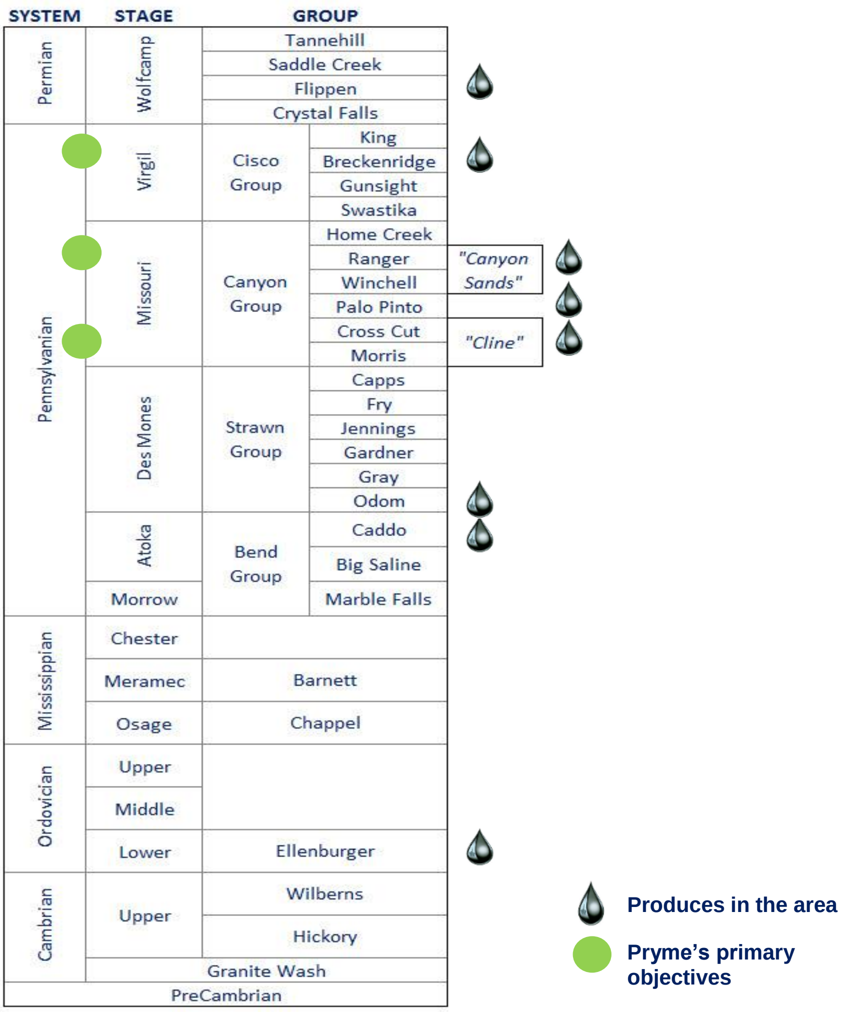

Figure 3: Regional stratigraphy of Eastern Permian, Texas. Source: Pryme

Capitola has multiple "stacked" horizons, with the primary target horizons being:

- Canyon Sands: this is a conventional target for Pryme using vertical wells, that previously produced oil predominantly from the C Sand, and has multiple sands ranging from 4,900 feet deep to 5,500 feet deep;
- Breckenridge Lime: this is a shallower conventional target (4,500 feet), which is a carbonate encased in shale setting just above the Canyon Sands. This horizon will be tested as part of the initial vertical well program to determine commingling potential with the Canyon Sands wells. This provides an upside to Pryme's vertical well program; and

- Cline Shale: the Cline Shale is roughly 140 miles long and 70 miles wide in mid Texas. It is known from cores taken by the industry to be regionally extensive. Industry prognoses for the Cline shale range up to potentially having more total recoverable oil and gas than both the Eagle Ford shale and Bakken combined.

The Cline shale has the following basin-wide attributes:

- High Total Organic Content (TOC) 2-8%, being approximately 5-6% average TOC on Pryme's acreage;
- Porosity range of 3-12% and natural fracturing to aid production;
- Shallow at 6,000 feet (1,828 metres) with formation thickness of 200-500 feet (60-150 metres); and
- 85% oil and liquids-rich gas, with the oil typically being light sweet crude of 38-42° API gravity.

Vertical Well Development Plan

Summary of Pryme's proposed vertical well development plan and Pryme's estimated well parameters:

- Typical vertical fracced wells expected by Pryme to cost approximately US$950,000 to drill and complete down to 6,000 feet depth;
- 200+ vertical locations to drill in Pryme acreage at 40 acre spacing targeting multiple zones (including previously produced zones) and other secondary objectives;
- Well locations to be down-spaced and step-out wells to previous well bores; and
- Pryme's estimated initial production rates of 60 to 140 BOE/day and EUR range of 50,000 to 140,000 BOE.

Pryme's estimate of the typical well curve profile for a Canyon Sands well follows:

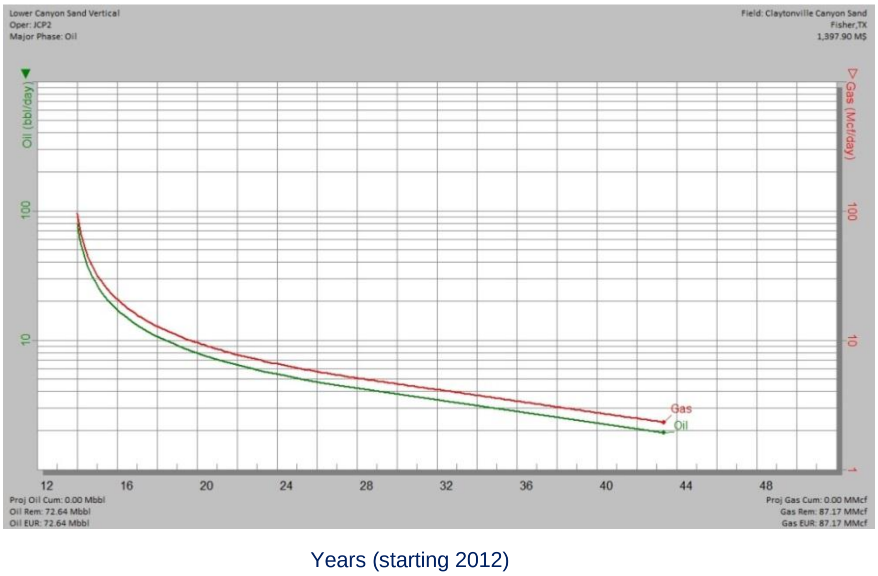

Figure 4: Canyon Sands vertical well type decline curve. Source: Pryme

Pryme estimates that single vertical well economics provide 40%+ IRRs. Although Pryme does not intend to pursue a horizontal well development for the Cline shale horizon, it is noted that there is potential for 60 horizontal locations in the Cline Shale drilled on 160 acre spacing.

Third Party Activity

The fields were discovered by Sinclair Oil in the mid 1950's. Most of the wells were plugged out from the main zones that produced in the 1980's and the balance in the 1990's when oil prices were considerably lower than currently and so did not support ongoing production. Prior third party activity at Capitola, in the Sweetwater and Claytonville fields, resulted in approximately 6 MMbbls of oil production from approximately 150 well bores.

Current third party activity on the boundaries of and surrounding the Capitola project provide a strong endorsement and are very encouraging.

Gunn Oil is undertaking a vertical well program near and to the north of Capitola. Gunn has recently applied for a vertical well permit 1 mile north of Capitola to test multiple Canyon Sands and deeper objectives to 7,500 feet. Gunn is also reporting attractive IPs in its vertical well program as can be seen in figure 5.

Devon Energy is undertaking a Cline shale focussed horizontal well program at locations surrounding Capitola, including as close as 1 mile from Capitola's boundary. Devon recently applied for three additional Cline Shale wells around Capitola, being a second step-out well to the Bishop 1H well (1 mile west, road and location work underway), the Parker 1H well (2 miles east) and the Harris 3H well (8 miles south-west).

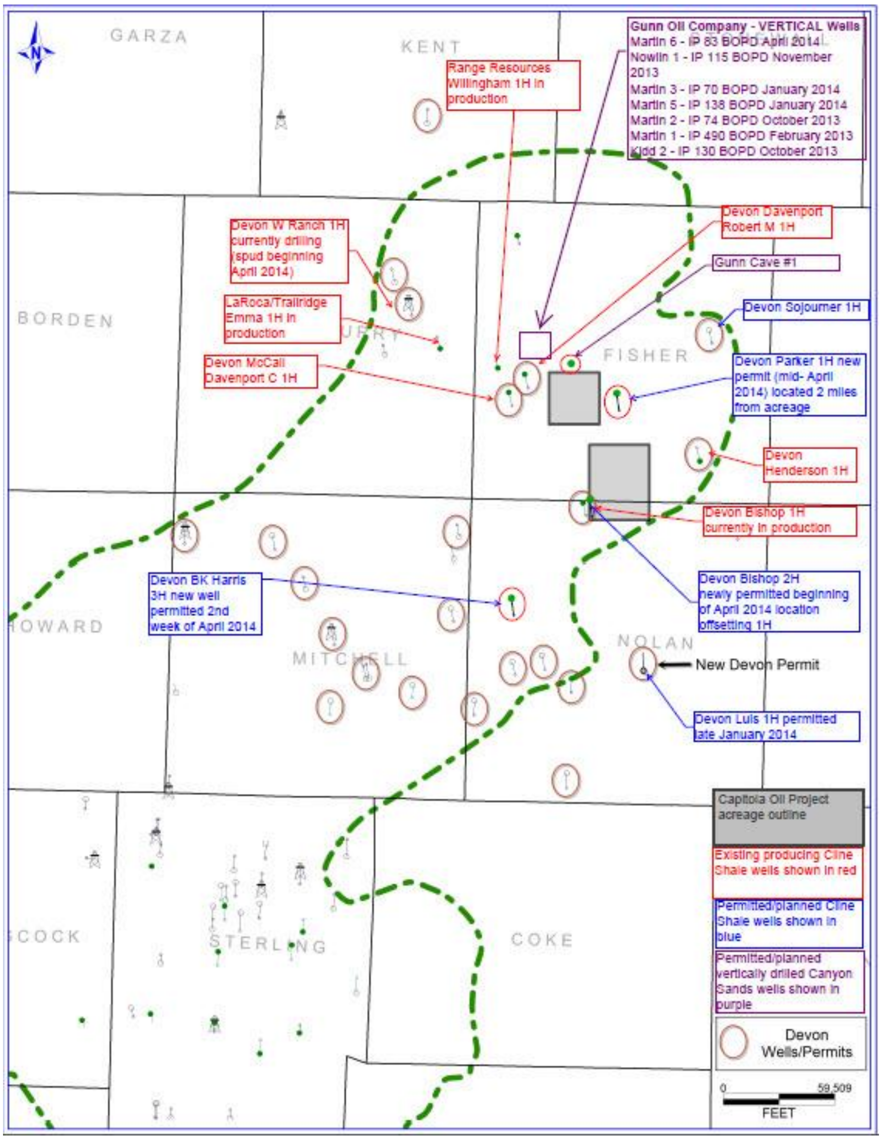

Figure 5: Public file well locations near Capitola. Source: Pryme

Range of Potential Recoverable Oil Outcomes

While the Capitola project and Pryme are not yet able to report reserves or resources, the following early stage estimates of a range of potential recoverable oil outcomes has been released by Pryme, as follows:

Recoverable Oil*	Low estimate	Best estimate	High estimate	Fractional recovery**
Breckenridge Lime	1.4 MMBOE	19.2 MMBOE	49.8 MMBOE	12.5%
Canyon Sands	6.9 MMBOE	8.7 MMBOE	10.6 MMBOE	18.0%
Cline Shale	0.8 MMBOE	5.9 MMBOE	13.8 MMBOE	6.0%
Total (BOE)	**9.1 MMBOE**	**33.8 MMBOE**	**74.2 MMBOE**	

*Recoverable Oil calculated by determining Remaining Oil in Place and applying a fractional recovery percentage as at the date of this presentation. All figures are net to Pryme and have been determined using deterministic method for the Canyon Sands and probabilistic method for the Breckenridge Lime and Cline Shale under SPE-PRMS. Natural gas is converted to BOE on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.
**Fraction recovery is calculated 1) Breckenridge Lime assumes general accepted recovery for solution gas drive reservoir, 2) Canyon Sands by material balance calculations, and 3) Cline Shale assumes generally accepted recovery for unconventional resource plays.

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Pryme confirms in this subsequent public report that it is not aware of any new information or data that materially affects the information included in the relevant market announcement made on 11 February 2014 and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

Figure 6: Range of potential recoverable oil equivalent resources at Capitola. Source: Pryme

Logistics and Markets

In relation to oil production, the oil gravity is expected to be in the range of 38-42 degrees and will attract WTI pricing less a discount that is expected by Pryme to be between US$2-5 /bbl and reducing. This is due to the current price disparity between Midland oil and Cushing (WTI) oil. The extent of any discount is expected by Pryme to be reduced when oil pipeline developments from the Midland Basin are completed. Magellan Midstream Partners LP and Occidental Petroleum Corp are currently building the 300,000 bpd BridgeTex pipeline from Colorado City, Texas, in the Midland Basin to the Gulf Coast Houston area, and start-up is expected to occur in the third quarter of calendar year 2014. Plains Pipeline LP is undertaking a significant capacity expansion at its Cactus pipeline taking oil from the Midland Basin to Corpus Christi, and Sunoco Logistics Partners LP is proposing expansion phases of its Permian Express pipeline including a phase originating from Midland, Texas. So Pryme's intention is that the crude oil is initially stored, where the individual lease oil storage facilities will range from 300-1200 bbl capacity, depending on how many wells are ultimately drilled on a particular lease. Oil will be transported by 180 bbl capacity trucks and delivered to local pipelines for transportation to a refinery.

In relation to gas production, there are several gas markets available to Pryme, where the end-user market will depend on location of a particular well on the leasehold, although predominantly gas is expected to be piped to the nearby Claytonville gas plant which is operated by West Texas Gas, Inc (using the entity Davis Gas Processing). Depending on location and well performance Pryme will either need a gathering system to a main gas trunk line or third party lines will be piped to wellhead locations. Nolan County (including Claytonville) had a population of over 15,000 in 2010. Note, the gas to oil ratio will vary across wells but is expected by Pryme from the Claytonville Block to be approximately 3000cf gas/1Bbl oil and on the Sweetwater Block to be approximately 1000cf gas/1Bbl oil out of the reservoir.

In relation to drilling and rig availability, we understand from Pryme that there are at least three rig contractors who have several rigs that have the suitable horsepower capacity and depth capability for vertical drilling to the depths of circa 7,200 feet (likely being the deepest vertical well Pryme may drill, with the range being potentially as shallow as 5,500 feet in the future). Further, these rigs suitable to task are able to be promptly mobilised (compared to the approximate one to two months for rigs capable of drilling horizontal wellbores). Pryme would be expected to firm-up on a drilling contract following completion of its funding efforts. Note, that drilling contracts are based on a footage rate and are therefore "turnkey", ie. delays or problems (if any) during the drilling of a well are the responsibility of the drilling contractor. One example of a variable factor in typical drilling contracts is how many fracture stimulation stages are required. We understand that Pryme's US$950,000 per well cost budgeted for the first three wells is on the basis of two frac stages.

Pryme's US Technical Team (led by Texas-based Ryan Messer, COO)

Pete Lehle (Petroleum Geologist)

Based in Houston, Pete is an AAPG Certified Petroleum Geologist with over 30 years' experience. He initially worked on international projects primarily in South east Asia and North and West Africa. Since 1986, he has worked with several independent oil companies exploring for and developing fields along the Texas Gulf Coast, in South Louisiana, the East Texas Basin, and along the Eastern Shelf of the Permian Basin.

Ryan Holcomb (Petroleum Engineer)

Over 10 years direct experience in the Permian Basin, Texas, with a focus on operations, secondary recovery implementation and facility design. Permian Basin roles with Pioneer Natural Resources to perform operational and reservoir engineering services and Whiting Petroleum as operations engineer from 2006. Based in Midland, Texas, Ryan is the President of H2P Operating, LLC and contract operator of the Capitola Oil Project.

Don Ellison (Petroleum Engineer)

Registered Petroleum Engineer in the State of Texas (www.tbpe.state.us), with over 45 years' experience in petroleum engineering. Manager of production engineering for one of the largest independently owned oil and gas producers in Texas. The founder and developer of the first upstream joint venture between Tatneft, the state-owned oil and gas company of the Russian Republic of Tatarstan, and a US oil company.

Robert Jordan (Landman)

Robert is a professional landman with over 36 years' experience covering all phases of the oil and gas exploration and production cycle. Based in Abilene, Texas, he has worked every major trend and play in Texas with extensive experience and expertise leasing highly prolific trends securing mineral acreage in high leasing activity locations.

James Turbyfill (Petroleum Geologist)

Based in Midland, James is an AAPG Certified Petroleum Geologist with over 30 year's Permian Basin geologic experience. He has worked with several independent oil companies exploring for and developing fields throughout the Permian Basin with a focus on the Eastern Shelf of the Permian Basin where the Capitola Oil project is located.

Capitola Transaction terms

Summary of Pryme's earn-in terms for the Capitola project:

- Pryme to earn into a 75% WI (56.25% NRI) in 9,333 acres to all depths from the surface to the top of the Cline Shale (7,000 net acres to Pryme) and a 50% WI (37.5% NRI) in all depths from the top of the Cline Shale and deeper (4,666 net acres to Pryme);
- Pryme has paid US$100,000 in cash and issued 6 million shares in Pryme Energy Limited to the vendors;
- Pryme is the operator and has the option at its sole discretion to drill 9 vertical wells and 1 horizontal well into the stacked formations above the Cline shale on a well by well basis in a phased program over 2 years in order to earn the relevant W.I.s;
- Phase I entails drilling 2 wells before August 1, 2014 and the payment of lease costs of US$750,000 by May 6, 2014. Phase II entails the drilling of 3 wells before February 1, 2015 and the payment of additional lease costs of US$750,000 by August 1, 2014, with US$1,000,000 remaining over the 2 year period; and
- Pryme is to fund 100% of the project cost for the first 3 wells. The vendors are entitled to a 25% WI in the first 3 wells after Pryme has recovered 100% of its costs for the first 3 wells combined (ie. back-in after payout). The vendors are also entitled to participate in, and fund their share of costs at a 25% WI level, all wells from well 4 onwards.

PRYME'S CAPITAL REQUIREMENTS

Pryme is undertaking an equity capital raising of up to A$5 million as a placement of its rights issue shortfall. Helmsec Global Capital Limited is appointed as Lead Manager.

Pryme's sources and uses of funds (see figure 7) provides flexibility whereby a smaller raising than A$5 million would be met by reduced well expenditures or Pryme may accelerate the processes of securing non-equity sources of funds for the ongoing drilling program.

Sources	A$m	Uses	A$m
Cash	1.0	Capitola for CY2014:	
Rights Issue	0.9	- Lease payments	1.7*
Est. cash inflows (existing assets) in CY2014	0.5*	- Well expenditures	up to 4.6*
Placement of shortfall	up to 5.0	Working capital and other costs	1.1
Total sources	**7.4**	**Total uses**	**7.4**

**A$m amounts assume 0.90 AUDUSD exchange rate*

Figure 7: Sources and uses of funds. Source: Pryme

RISKS

- Commodity price risks: in particular oil and domestic US gas prices are a risk for Pryme.
- Exploration, development and operating risks: Pryme is confident that the previously produced oil horizons at Capitola will be producible on an in-fill and step-out basis to existing well bores. This is exposed to risks relating to geological and reservoir conditions, drilling and completion techniques, flow rates (IP, EUR, decline rates, oil/gas mix), etc that exist for oil developments. Exploitation of the Cline shale horizon by Pryme is also subject to these types of risks.
- Credit/funding risks: The commencement of the well program and payment of farm-in amounts depend on successfully raising equity or other non-debt capital, which is subject to market and other risks, and Pryme electing to pursue its option to make these expenditures. To the extent this is not undertaken there is a risk of Pryme owning less of the Capitola project than expected. Pryme's roll-out of the full vertical well program at Capitola is intended to be predominantly funded by non-equity sources such as cash flow and lending facilities. The availability of these sources is subject to risks such as well performance, reserves certification, and lending market appetite. Depending on the lending that may be arranged in the future and Pryme's ability to repay through well performance, Pryme may need to raise further capital through a further equity raising, sale of assets or alternative financing to repay any future outstanding debt. Pryme's current cash burn is approximately A$1.2 million per year.
- Market price and liquidity risks: an investment in Pryme is subject to general and specific market and pricing risks, including the level of liquidity in the ASX traded market for Pryme.
- While upside exists from conventional oil development and exploitation of unconventional Cline shale, there is no guarantee that resources and potential formations can be produced or will result in the discovery of economic reserves on the project.
- Turner Bayou facility: Pryme has a US$6.5 million debt outstanding that relates to the Turner Bayou project; however the facility is non-recourse to Pryme. We understand the facility (and Pryme's ownership position in Turner Bayou) is in the process of being resolved to leave Pryme with a minor ongoing asset interest. Should this not transpire, then it may result in Pryme having no ongoing exposure to the facility or the asset.

Other general risks include:

- Geological and Reserves risk;

- Market risk and economic factors;
- Fluctuations in exchange rates; and
- Sovereign risks.

RECOMMENDATION

We recommend Pryme as a speculative buy on the basis of the merits and risks of the investment (including funding risks) as described in this report, including:

- Good potential for near term oil production: the Sweetwater and Claytonville fields have previously produced oil and Pryme intends to drill vertical wells into those previously produced horizons. Also third parties, such as Gunn Oil, are currently producing from conventional oil horizons near to Capitola using vertical wells; and
- Upside value potential from the Cline shale: previous well core data from Capitola shows the existence of the Cline shale on the acreage, and third parties, such as Devon Energy, are currently producing, drilling and permitting wells nearby to Capitola with a clear focus on the Cline shale.

Given the pre-drill status of Capitola currently and Helmsec Global's lead manager role for Pryme's rights issue shortfall placement, a valuation has not been undertaken for this report.

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HGCL has received professional fees from the Company for the provision of services including Corporate Advisory. In the event that the Company raise equity capital, HGCL and Helmsec are likely to earn fees from undertaking the role of Lead Manager.

HGCL their Directors, employees, authorised representatives, consultants, associates, related entities and/or family members have interests in the securities of the Company. If you require further information in relation to the parties referred to above and their interest(s) in the Company please contact Helmsec.

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