

# Pryme Energy Limited (ASX:PYM)

## PRODUCER

## CONVENTIONAL OIL

## SHALE OIL POTENTIAL

### COMPANY DATA

ASX Code	PYM
Recommendation	SPECULATIVE BUY
Share Price (A\$)	A\$0.009
Ordinary Shares on Issue (m)	907.4
Options on Issue (m)	549.0
Market Capitalisation (A\$m)	A\$8.2
Cash at Oct-14 (A\$m)	A\$3.7
Non-recourse debt (US\$m) <sup>1</sup>	nil
Enterprise Value (A\$m)	A\$4.5

1. A purchase and sale agreement was entered into in May 2014 in order to extinguish the Macquarie Bank non-recourse debt.

### SHARE PRICE PERFORMANCE



### BOARD & MANAGEMENT

George Lloyd	Non-Executive Chairman
Justin Pettett	Managing Director
Ryan Messer	Executive Director
Greg Short	Non-Executive Director
Sandra Gaffney	Chief Financial Officer
Swapna Keskar	Company Secretary

### MAJOR SHAREHOLDERS

Board Members	5.4 %
Belmont Park Investments	4.2 %
Panorama Ridge	4.2 %

## SPECULATIVE BUY

### *Pryme Energy – “One Well Done, Two More to Come”*

#### SUMMARY

Pryme has **successfully drilled the Mahaffey Bishop PU 1 well** in the Sweetwater acreage block. The “A” sand with the Canyon Sand formation, being the primary objective, was observed with **38 gross feet (34 net feet) of oil and gas saturated sandstone** with expectations for good porosity and permeability.

Also, **other formations intersected were promising with hydrocarbon shows**, and the Breckenridge formation, the Cline shale and the Strawn formations are all to be further assessed in the ongoing drilling campaign.

These are encouraging results and moves Pryme forward on its near term objective of achieving the “proof of concept” of the Capitola Oil Project.

**Pryme has commenced drilling a further 2 wells** in the current program (McCain and Hope Boles), with results expected over the next couple of weeks. **Well completion (including fracking) and potential production of the three wells is proposed to occur over the next couple of months.**

#### RECOMMENDATION

We recommend Pryme as a **SPECULATIVE BUY**. Our recommendation is on the basis of the merits and risks of the investment as described in the various reports published in 2014.

- **Exposure to near term oil drilling program:** 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 oil horizons near to Capitola using vertical wells;
- **Upside value potential through conventional horizontal well development of the Canyon Sands:** the Devon BK Harris 3H well (8 miles southwest of Capitola) has been drilled horizontally through the Canyon Sands and is currently flowing oil and burning a large gas flare. Devon is expected to begin drilling another nearby conventional horizontal well soon. This provides potential upside to Pryme’s vertical well program; and
- **Upside value potential from the Cline shale:** hydrocarbon shows and mud and electric log data from the Mahaffey Bishop PU1 well confirm the productivity of the Cline Shale on Pryme’s acreage. Third parties, such as Devon Energy, continue to actively demonstrate the Cline shale’s prospectivity by continuing their production, drilling and well permitting activities nearby to Capitola.

Given the pre-production status of Capitola currently, and Helmsec Global’s participation in Pryme’s underwritten rights issue earlier in 2014, a valuation has not been undertaken for the purpose of providing the recommendation in this report.

## RISKS

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- Commodity price and currency risks: in particular US crude oil prices and US domestic gas prices and the Australian dollar to US dollar exchange rate are risks for an investment in Pryme.
- Exploration, drilling, 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 results of the drilling program, 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 an 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.
- Reserves and commercial project risks: whilst 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.
- An investment in Pryme is also subject to other general and specific investment risks.

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