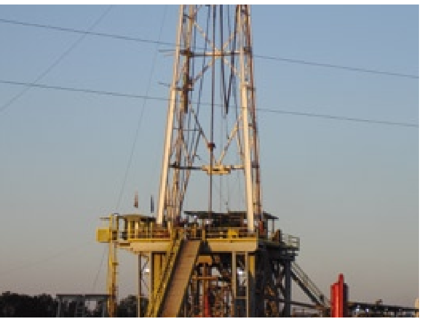   

DECEMBER 2008 **QUARTERLY REPORT**

"Confidence in global financial markets has diminished, there has been a dramatic weakening of the Australian currency and prices for oil and natural gas have fallen to the levels of 2004 - it is a challenging time for junior oil and gas companies. These difficult times present an opportunity for Pryme to take advantage of lower service and supply costs and reduced producing property valuations to build a stronger platform for growth. If we make new and existing project investment decisions wisely shareholders will benefit in the long term. To take a less than medium to long term view on the growth of the company during these times would be distracting. The management of Pryme remains committed to building shareholder value."

**Justin Pettett**
**Managing Director**


*Completed Patterson 16 No.1 Well in the Raven Project*

# Table of Contents



# Glossary

Bbls/day ........ Barrels (of oil) per day
Bbls/month ........ Barrels (of oil) per month
Bcf ........ Billion Cubic Feet
Bcfe ........ Billion Cubic Feet Equivalent
Mcf ........ Thousand Cubic Feet
Mcfd ........ Thousand cubic feet per day
MMcfd ........ Million Cubic Feet of Natural Gas per Day
NRI ........ Net Revenue Interest
NYSE ........ New York Stock Exchange
Tcf ........ Trillion Cubic Feet
3.28 feet ........ Equals 1 metre

# Corporate Directory

## Directors

Mr George Lloyd (Chairman)
Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Executive Director)
Mr Ananda Kathiravelu (Non-Executive Director)

## Company Secretaries

Mrs Janine Rolfe
Ms Swapna Keskar

## Registered and Principal Office

Level 7, 320 Adelaide Street
BRISBANE QLD 4000

**Phone:** +61 7 3371 1103
**Fax:** +61 7 3371 1105

## Postal Address

GPO Box 111
BRISBANE QLD 4001

## USA Office

1001 Texas Ave.
Suite 1400
HOUSTON TX 77002

**Phone:** +1 832 487 8607
+1 866 471 1300 Toll Free
**Fax:** +1 832 201 0936

**Email:** info@prymeoilandgas.com
**Website:** www.prymeoilandgas.com

## Auditors

Moore Stephens
Level 25, 71 Eagle Street
BRISBANE QLD 4000

## Share Registry

Link Market Services Limited
Level 12, 300 Queen Street
BRISBANE QLD 4000

**Phone:** +61 2 8280 7454
**Fax:** +61 2 9287 0303

## Depository for ADR

Bank of New York
101 Barclay Street
NEW YORK NY 10286

## Solicitors

Steinepreis Paganin
Lawyers & Consultants
Level 4, Next Building
16 Milligan Street
PERTH WA 6000

## Stock Exchanges

Australian Securities Exchange Limited (ASX)
**Code:** PYM

International OTCQX
**Code:** POGLY

## Australian Company Number

117 387 354

## Australian Business Number

75 117 387 354

# December 2008 Quarterly Activity Report

30 January 2009

In accordance with Listing Rule 5.2, Pryme Oil and Gas Limited, an oil and natural gas producer and explorer operating in the U.S., is pleased to report on its activities for the quarter ending 31 December 2008.

## SUMMARY AND HIGHLIGHTS

- Reliable production from LaSalle Parish and Raven continue
- Drilling of fifth well in Turner Bayou completed
- Atocha status report
- Management investigates several new projects

## A SMALL CAP GROWTH OPPORTUNITY

| | |
|---|---|
| **ASX Code:** | **PYM** |
| **Recent price:** (27 January 09) | **$0.065** |
| **Cash on hand:** | **$2,963,925** |
| **Shares outstanding:** | **111,056,732** |
| **20 Cent Options (Jun 09):** | **2,118,000** |
| **40 Cent Options (Dec 09):** | **500,000** |
| **Market Capitalisation:** | **$7.21m** |
| **Price range (12 month):** | **$0.051-$0.36** |

# Projects

## Quarterly Sales Report (net to Pryme)

| Project | December Quarter | | Calendar Year to Date | |
|---|---|---|---|---|
| | Natural Gas (Mcf) | Oil/Condensate (Bbls) | Natural Gas (Mcf) | Oil/Condensate (Bbls) |
| La Salle Parish | 0 | 3,405 | 0 | 15,448 |
| Raven * | 31,242 | 648 | 88,834 | 1,906 |
| **Total** | **31,242** | **4,053** | **88,834** | **17,354** |

** This figure includes actual sales for the first two months of the quarter and an estimate based on production data from the operator for the last month in the quarter*

## LaSalle Parish Project (8% - 21.5% Interest)

The LaSalle Parish project is based on oil production from five middle aged fields, the first of which was discovered in 2000, and remains an important contributor to the Company's cash flow.

Fourth quarter oil sales of 3,405 barrels (37 barrels per day net to Pryme) was 7% lower than for the previous quarter. The two main factors contributing to the lower production were that low winter temperatures increase the viscosity of oil which reduces the flow rate and a number of wells were producing at a reduced rate during the quarter due to routine downhole pump maintenance.

## Turner Bayou 3D Seismic Project

| | |
|---|---|
| **Target Formation** | Frio |
| **Depth** *(feet)* | 4,000 - 5,000 |
| **Potential*** *(100% basis)* | 0.3 – 1.0Bcf |
| **Working Interest** | 52% |
| **Net Revenue Interest** | 39% |
| **Dry Hole Cost** *(to Pryme)* | US$185,000 / well |
| **Wells to be drilled in Q1** | 1 |

**Potential is un-risked and a gross figure to the 100% working interest. To calculate the net potential to Pryme, multiply the potential by the net revenue interest percentage. Costs shown are dry hole costs attributable to Pryme's interest only. If a well is successful further completion costs will be required.*

Turner Bayou remains one of Pryme's higher value projects. In exploring the shallow Frio formation, natural gas is the targeted commodity. However, there is also the possibility of minor oil production.

The fifth Turner Bayou exploration well (Indigo Minerals 27 No.1) was drilled in the quarter and failed to provide any indications of hydrocarbons. The well was plugged and abandoned. Of the 5 shallow wells drilled in Turner Bayou to date, 3 have been shut-in as potential producers. The discovery ratio is consistent with the performance of other operators in the Frio formation in the vicinity of the Turner Bayou project. Pryme and its partners will continue to drill shallow Frio anomalies during the first half of 2009.

Production from the Frio formation will depend on making a sufficient number of discoveries to justify the investment in a sales pipeline and related infrastructure. At that time the discoveries will be re-evaluated, and completed as producing wells if warranted, and potential production will be determined.

The Frio must be developed with geological caution in order to optimise the return on investment. As wells are drilled the interpretation of the formation and seismic anomalies is modified to incorporate the new information. This, in turn, leads to the re-prioritisation of drilling targets. Similar on-trend 3D seismic surveys that target shallow objectives typically have fewer wells drilled in the early days and a greater amount of drilling is undertaken as the interpretation evolves. The project has engaged a geophysicist, who is a regional expert in this trend, to assist with this process as well as help further define the deep potential of the project area.

The geophysical evaluation of deeper anomalies in the Turner Bayou project area has resulted in the identification of a number of prospects at depths between 8,100 feet and 18,000 feet. Within this section the Eocene, Lower Cretaceous and Austin Chalk intervals are the higher priority formations. Analogous production from nearby oil and gas fields provides many positive indications of the potential of these horizons.

The cost of exploration of the deeper Turner Bayou prospects is much higher than for the shallow exploration and it is proposed that a portion of the working interest in the deeper prospects be farmed out to other explorers to mitigate risk and reduce capital costs. Typical farm-out terms would include an up-front cash payment and a carried working interest through to completion and would enable Pryme to reduce its risk, recover part of its investment and share in the upside from successful exploration.

# Projects (cont.)

Successful exploration of the deeper Turner Bayou prospects has the potential to create significant value for shareholders.

## Raven Project (40% Interest / 30% NRI)

| Target Formation | Cotton Valley |
|---|---|
| Depth *(feet)* | 10,000 |
| Potential* *(100% basis)* | 2.0Bcf |
| Working Interest | 40% |
| Net Revenue Interest | 30% |
| Dry Hole Cost *(to Pryme)* | US$500,000 |
| Wells to be drilled in Q1 | 0-1 |

**Potential is un-risked and a gross figure to the 100% working interest. To calculate the net potential to Pryme, multiply the potential by the net revenue interest percentage. Costs shown are dry hole costs attributable to Pryme's interest only. If a well is successful, further completion costs will be required.*

Production from the Raven project for the quarter was 31,242 Mcf of natural gas and 648 barrels of condensate, 3% and 6% lower respectively than for the previous quarter. The main reason for this was normal decline.

Production from the Grable 15 No. 1 well and the Patterson 16 No.1 well averaged 647 and 561 Mcf per day of gas and 17 and 8 barrels per day of condensate respectively for the quarter.

The drilling of a fourth well in the Raven Project is under evaluation by Pryme and Nelson Energy (the operator) taking into account lower gas prices as well as significantly reduced costs of drilling, services and supplies. We currently expect to be drilling the well during the first half of 2009. However, a commitment has not yet been made.

Pryme has a good mineral acreage position in the Raven project with each producing well holding a 640 acre section of minerals to all depths.

## Saline Point Project (24% Interest / 18% NRI)

| Target Formation | Wilcox |
|---|---|
| Depth *(feet)* | 5,000 |
| Potential* *(100% basis)* | 300 – 600 MBbls |
| Working Interest | 24% |
| Net Revenue Interest | 18% |
| Dry Hole Cost *(to Pryme)* | $130,000 |
| Wells to be drilled in Q1 | 1 |

**Potential is un-risked and a gross figure to the 100% working interest. To calculate the net potential to Pryme, multiply the potential by the net revenue interest percentage. Costs shown are dry hole costs attributable to Pryme's interest only. If a well is successful, further completion costs will be required.*

Oil is the targeted commodity at Saline Point.

Drilling of the third Saline Point well is planned to commence during the first quarter of 2009 subject to access to the location and the water level in the adjacent lake. It will test the potential for a number of oil-bearing stacked reservoir sands. The location has been determined from well log information from two previous wells and places the new well at the optimum structural location.

## Up Dip Tuscaloosa Project (100% Interest / JV with Amelia)

| Target Formation | Tuscaloosa |
|---|---|
| Depth *(feet)* | 17,700 |
| Potential* *(100% basis)* | 30 – 48 Bcfe |
| Working Interest | 100% |
| Net Revenue Interest | 81.33% |

**Potential is un-risked and a gross figure to the 100% working interest. To calculate the net potential to Pryme multiply the potential by the net revenue interest percentage. Working interest and net revenue interest shown are the terms currently being offered to potential farm-in partners and are subject to change.*

The Atocha prospect is contained within a project area of approximately 1,800 square kilometres (700 square miles) in central Louisiana. The area includes 6,400 acres in East Baton Rouge and East Feliciana Parishes over which Pryme holds the mineral rights and which are on trend with the prolific Tuscaloosa Trend. The area contains two exploration prospects in addition to Atocha.

The Tuscaloosa Trend was discovered in 1975 by Chevron. It has produced over 2.8 trillion cubic feet (TCF) of natural gas and 120 million barrels of condensate over the past 32 years. Atocha is located five miles north of BP's Port Hudson Field which is the best producing field in the trend. The Port Hudson Field is a salt-cored anticline from which approximately 800 billion cubic feet (BCF) of gas and 90 million barrels of condensate (1.3 trillion cubic feet equivalent (TCFE) of natural gas) have been produced to date. The primary targets of the Atocha Prospect are over 17,000 feet deep and are analogous to producing formations in Port Hudson Field.

The first exploration well in Atocha will be the re-entry of a well which was drilled by a major oil company in 1980 when the Tuscaloosa Trend was relatively undeveloped and its production characteristics were unknown. Petrophysical

# Projects (cont.)

analysis indicates that the well to be re-entered potentially contains over 100 feet of natural gas bearing sands. This section will be tested and, if completed as a producing well, will deliver gas into the nearby sales pipeline network.

Considerable preparatory work for the re-entry of the Atocha well has been completed. Notwithstanding the recent falls in the prices of oil and gas, it is believed that a successful re-entry will still be economically attractive and it is intended that the re-entry will commence as soon as a farm-in partner is secured.

Pryme intends to farm out its interest in the Atocha prospect (on either a stand-alone basis or together with its two additional Up Dip Tuscaloosa prospects) on terms that will include an up front cash payment, to recoup costs expended to date, and a carried working interest through to completion. Leasing in the two adjacent prospects has been suspended pending securing a farm-in partner so Pryme can focus its time and effort on the re-entry of the Atocha.

A discovery in the Atocha Project has the potential to significantly increase earnings and greatly increase the value of Pryme.

## Kestrel Project (100% Interest / JV with Wave Exploration)

Kestrel is a Hackberry Sands Project located in Calcasieu Parish Louisiana and has been generated through the processing of 3D seismic data. The project area has been fully leased and is currently being marketed by the prospect generator Wave Exploration LLC that is headed by Kirk Barrel and Jerry Perret. To date Wave has been unsuccessful in sourcing a farm in partner for this project.

The project is located on 320 acres and it is proposed that Kestrel be drilled to a depth of 13,500 feet, targeting four "Hackberry" natural gas and condensate bearing sands

## Checkmate (100% Interest / JV with Amelia Resources)

All work including the reprocessing and interpretation of seismic data in this project has been put on hold so that the Company can focus on its current inventory of prospects and evaluate certain new opportunities. A substantial library of seismic data has been accumulated for Pryme to use at a later date.

## New Projects and Opportunities

The management of Pryme are currently analysing several new oil and associated gas opportunities that could potentially result in near term drilling and a short completion time to sales if successful. Leveraging Pryme's current cash position and existing industry relationships to increase production is a fundamental component of Pryme's growth strategy for 2009.

Further details of these projects will be announced if completed transactions result.

For further Company information please visit our website at www.prymeoilandgas.com or contact:

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*President*
**Pryme Oil and Gas Inc**
Telephone: +1 832 487 8607
Email: ryan@prymeoilandgas.com

# Appendix 5B
## Mining exploration entity quarterly report

| Name of entity | ABN | Quarter ended ("current quarter") |
|---|---|---|
| Pryme Oil and Gas Limited | 75 117 387 354 | 31 December 2008 |

## Consolidated statement of cash flows

| | | Current quarter<br>$A'000 | Year to date (12 months)<br>$A'000 |
|---|---|---|---|
| | **Cash flows related to operating activities** | | |
| 1.1 | Receipts from product sales and related debtors | 658 | 2,560 |
| 1.2 | Payments for (a) exploration and evaluation | (641) | (4,633) |
| | (b) development | - | - |
| | (c) production | (167) | (386) |
| | (d) administration | (305) | (1,812) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 47 | 327 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other (provide details if material) | - | - |
| | **Net Operating Cash Flows** | **(408)** | **(3,944)** |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for purchases of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | (1,330) | (2,663) |
| | (c) other fixed assets* | (16) | (25) |
| 1.9 | Proceeds from sale of: | | |
| | (a) prospects | - | 860 |
| | (b) equity investments | - | - |
| | (c) other fixed assets* | - | - |
| 1.10 | Loans to other entities | - | - |
| 1.11 | Loans repaid by other entities | - | - |
| 1.12 | Other (provide details if material) | - | - |
| | **Net investing cash flows** | (1,346) | (1,828) |
| 1.13 | Total operating and investing cash flows (carried forward) | **(1,754)** | **(5,772)** |

# Appendix 5B
## Mining exploration entity quarterly report

| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | (1,754) | (5,772) |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc.* | - | 7,210 |
| 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) | - | (406) |
| | **Net financing cash flows** | **-** | **6,804** |
| | **Net increase (decrease) in cash held** | (1,754) | 1,032 |
| 1.20 | Cash at beginning of quarter/year to date | 4,539 | 1,855 |
| 1.21 | Exchange rate adjustments to item 1.20 | 178 | 76 |
| 1.22 | **Cash at end of quarter** | **2,963** | **2,963** |

** Incorrectly recorded previously*

### Payments to directors of the entity and associates of the directors
### Payments to 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 | 230 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

N/A

### 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

# Appendix 5B
## Mining exploration entity quarterly report

### 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 | 710 |
| 4.2 | Development | - |
| | **Total** | **710** |

### 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 | 2,963 | 4,539 |
| 5.2 | Deposits at call | - | - |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.22) | **2,963** | **4,539** |

### Changes in interests in mining 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 | - | - | - | - |
| 6.2 | Interests in mining tenements acquired or increased | - | - | - | - |

# Appendix 5B
## Mining exploration entity quarterly report

### 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 +securities** (description) | | | | |
| 7.2 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions | | N/A | | |
| 7.3 | **+Ordinary securities** | 111,056,732 | 111,056,732 | Various | Fully Paid |
| 7.4 | Changes during quarter<br>(a) Increases through option excercises (Refer 7.9 below)<br>(b) Decreases through returns of capital, buy-backs | NIL<br><br>NIL | | | |
| 7.5 | **+Convertible debt securities** (description) | | | | |
| 7.6 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted | | N/A | | |
| 7.7 | **Options** | | | *Exercise price* | *Expiry date* |
| | Unlisted Options | 2,118,000 | - | 20¢ | 30 June 2009 |
| | Unlisted Options | 500,000 | - | 40¢ | 31 December 2009 |
| 7.8 | Issued during quarter<br>Unlisted Options<br>Listed Options | <br>NIL<br>NIL | | | |
| 7.9 | Exercised during quarter<br>Unlisted Options<br>Listed Options | <br>NIL<br>NIL | | | |
| 7.10 | Expired during quarter<br>Unlisted Options<br>Listed Options | <br>NIL<br>NIL | | | |
| 7.11 | **Debentures** (totals only) | N/A | | | |
| 7.12 | **Unsecured notes** (totals only) | N/A | | | |

# Appendix 5B
## Mining exploration entity quarterly report

### 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 4).

2 This statement does give a true and fair view of the matters disclosed.

**Sign here:** ............................................................ **Date:** 30 January 2009
(Director)

**Print name:** Justin Pettett

### 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 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, 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 1022: Accounting for Extractive Industries and AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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.

# Notes

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BRISBANE – HOUSTON