PRYME ENERGY LIMITED

(ABN 75 117 387 354)

AND

CONTROLLED ENTITIES

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

Company Snapshot

ASX Code:	PYM
OTCQX Code:	POGLY
Recent price: (28 February 2012)	$0.052
Cash on hand:	$5,232,537
Shares outstanding:	259,360,278
Market Capitalisation: (28 February 2012)	$13.5m
12 Month Share Price Range:	$0.04 - $0.18

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Glossary

Bbls/day .... Barrels (of oil) per day
Bbls/month .... Barrels (of oil) per month
Bcf .... Billion Cubic Feet
Bcfe .... Billion Cubic Feet Equivalent
BOE .... Barrels of Oil Equivalent
Mcf .... Thousand Cubic Feet
Mcfd .... Thousand cubic feet per day
MMcfd .... Million Cubic Feet of Natural Gas per day
NRI .... Net Revenue Interest
ppg .... Pounds Per Gallon
Tcf .... Trillion Cubic Feet
Tcfe .... Trillion Cubic Feet Equivalent
WI .... Working Interest
3.28 feet .... Equals 1 metre

Chairman's Report

Dear Shareholder

The 2011 year saw a 35% increase in Pryme's oil production, a 48% increase in production revenue and, for the first time since listing in 2006, a modest cash inflow from operating activities. However, the year also delivered some great frustrations with technical problems hindering our progress towards demonstrating the true potential of our flagship project at Turner Bayou.

In the Turner Bayou project the Deshotels 20H well was completed and the Deshotels 13H well was also drilled and completed during the year; Pryme has a 40% working interest in both of these wells. Pryme also had a minor participation in the Rabalais 35-1 well (working interest 8.8%) which was drilled by Anadarko and, at the time of writing, is shut-in pending further evaluation.

Both the Deshotels 20H and the 13H laterals intersected significant fracturing of the Austin Chalk formation, produced oil and gas to the surface whilst being drilled and demonstrated significant bottom hole pressures all of which suggest that, completed properly, these wells would have the potential to be significant oil producers. However, in both cases, mechanical problems in completion have impacted on the connectivity between the fractures and the wellbore and production is presently well below expectations. A remediation plan under development for the 20H well provides the potential to significantly lift production and we expect that this will be implemented later in 2012. We are less certain of an effective remediation plan for the 13H well and believe that the Austin Chalk formation was damaged in attempts to address a failure in the Packers Plus liner system which was installed in the lateral section of well.

Notwithstanding the frustrations associated with the drilling and completion of the Deshotels 20H and 13H wells, our confidence in the production potential of the Turner Bayou Chalk project remains undiminished. We believe that the project has potential to host up to 30 producing horizontal wells, on the basis of a 640 acre spacing. Furthermore, based on independent engineering advice procured by Pryme, we are confident that the problems encountered in completion of the two Deshotels wells can be avoided in future.

Our confidence in the value of the Turner Bayou Chalk project was bolstered following the application of leading edge seismic data analysis capability to re-processing the results of the Pryme's proprietary 3D seismic survey of the Turner Bayou Chalk area. The re-processing, which was commenced in the second half of the year and completed in early 2012, has confirmed that the core area of the Turner Bayou Chalk project is likely to have the greatest fracture intensity in the region and, therefore, the greatest oil production potential. The re-processed seismic data will provide invaluable support for the locating and orientation of future wells in the project.

Pryme's La Salle Parish, Raven, Four Rivers and Catahoula Lake projects all performed to expectations during the year. However, only limited exploration of the Catahoula Lake project area was carried out following the resolution of issues connected with the bankruptcy of the project operator and the acquisition of its 50% interest by Sanchez Oil and Gas, with the main emphasis being a re-examination of the prospectivity of the project.

The price of oil remained very strong through 2011 in stark contrast to the price of gas which remained weak. The relative out-performance of oil prices provides support for Pryme's strategic decision in 2009 to re-weight its exploration and project development emphasis towards oil production.

The Company raised fresh capital by way of new equity and a convertible note issue during the year. The capital raisings have been conducted with a view to ensuring that Pryme can satisfy its project development plans while minimizing shareholder dilution.

Pryme's small executive team functioned efficiently and achieved much during the year. Their efforts have provided the platform for the transformation of the Company from a junior oil and gas player to a sustainable oil and gas explorer and producer. I wish to record my appreciation of their efforts throughout 2011.

We are looking forward to a rewarding year and appreciate the continued support of shareholders, staff, joint venture partners and suppliers.

George Lloyd
Chairman

Projects

Annual Sales Report (net to Pryme)

Project	Calendar Year 2011		Calendar Year 2010	
	Natural Gas (Mcf)	Oil/Condensate (Bbls)	Natural Gas (Mcf)	Oil/Condensate (Bbls)
La Salle Parish	0	8,592	0	9,661
Four Rivers	0	6,318	0	10,672
Raven	57,745	1,105	82,808	1,649
Catahoula Lake	0	5,893	0	5,250
Turner Bayou	2,521	15,074	Flaring	244
Total	**60,266**	**36,982**	**82,808**	**27,476**
Total (BOE*)	**47,026**		**41,277**	

** Natural gas is converted to BOE on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.*

Average daily sales for the calendar year ending 31 December 2011 were 101 Bbls per day of oil and 165 Mcf per day of natural gas (129 BOE per day). On a total energy basis this represents an increase of 10% over 2010 which is mainly attributable to production from the Deshotels 20H and 13H wells in the Turner Bayou Chalk project offsetting the natural decline in production from the LaSalle, Four Rivers, Raven and Catahoula Lake projects. The proportion of oil and condensate in the oil and gas sales mix increased from 66% in 2010 to 78% in 2011 strengthening Pryme's bias towards oil production and away from natural gas.

Turner Bayou Chalk Project

Pryme has a 40% working interest in 24,000 acres (9,600 net acres) in the Turner Bayou Project and is initially targeting development of the Austin Chalk horizon for oil production. Approximately 30 Austin Chalk well locations are possible within the core project area based on a 640 acre well spacing.

In addition to the Austin Chalk potential of the Turner Bayou project, Pryme's acreage contains both the Wilcox formation and the Tuscaloosa Marine Shale ("TMS") which is analogous to the Eagle Ford formation in South Texas. A vertical test of both formations within Pryme's acreage has returned oil and gas shows in the mud log. Furthermore, a number of companies have achieved encouraging results from tests of the TMS in proximity to Pryme's Turner Bayou leases.

Most of Pryme's Turner Bayou Chalk project acreage is located along the thin section of the Austin Chalk formation that is associated with the underlying Edwards Shelf margin. This geological setting is likely to have a very high fracture intensity; the higher the fracture intensity the higher the oil production potential of the Austin Chalk formation. Recent reprocessing of Pryme's 3D seismic data over the area has reinforced this interpretation and it is also borne out in drilling results. The fracture intensity in Pryme's acreage is depicted in Figure 1 to the right with the red/yellow/green shading indicating the areas of greatest fracture density.

Turner Bayou Acreage over 3D Seismic Survey

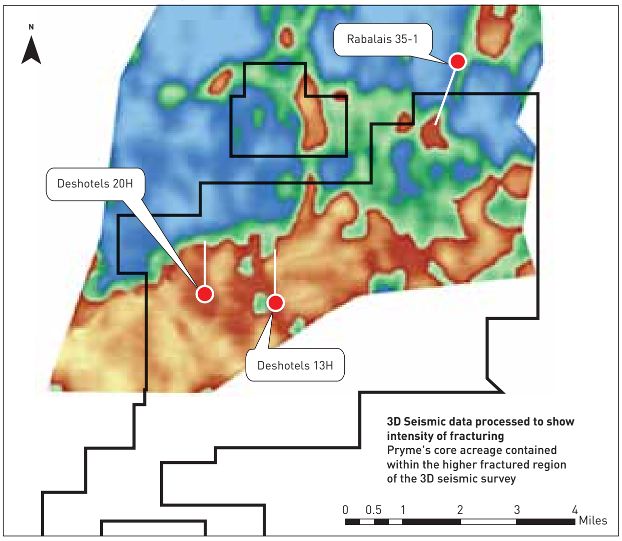

Figure 1

The map is derived from 3D seismic data processed to allow interpretation of the most intensely fractured areas within the targeted portion of the Austin Chalk formation. The red, yellow and green shaded areas are the most intensely fractured. Pryme's acreage position is contained within the black outline.

Projects (cont.)

Pryme has drilled two Austin Chalk wells within Turner Bayou, the Deshotels 20H and the Deshotels 13H (Pryme 40% WI in each well), and has participated in a third well, the Rabalais 35-1 (Pryme 8.8% WI), with Anadarko Petroleum. Both Deshotels wells encountered extensive hydrocarbon filled fractures and produced oil and gas to surface during drilling. The Deshotels 13H returned an initial potential rate of up to 1,167 Bbls/per day of oil and 600 Mcf per day of natural gas despite a sub optimal completion method and resulting mechanical issues impeding production. Third party engineering studies have confirmed the view that, had it not been for the sub optimal completion techniques and mechanical issues during the completion of the Deshotels wells, relatively high production rates would have been achieved. The recently drilled Rabalais 35-1 well lies in a much less intensely fractured location and does not exhibit the same potential as the two Deshotels wells.

Wells drilled into the Austin Chalk formation within Turner Bayou are located using Pryme's 3D seismic data, drilled to approximately 15,000 feet vertical depth and then horizontally for a further 4,000 to 6,000 feet In this area well data indicates that if an intensely fractured Austin Chalk section is encountered and the reservoir is not damaged during drilling and completion, no stimulation is required.

Recent successful wells in and around Turner Bayou are detailed in Figure 2 and Table 1 below. Pryme plans to spud its fourth well in the Austin Chalk in late April 2012.

Austin Chalk Regional Trend Map and Project Location

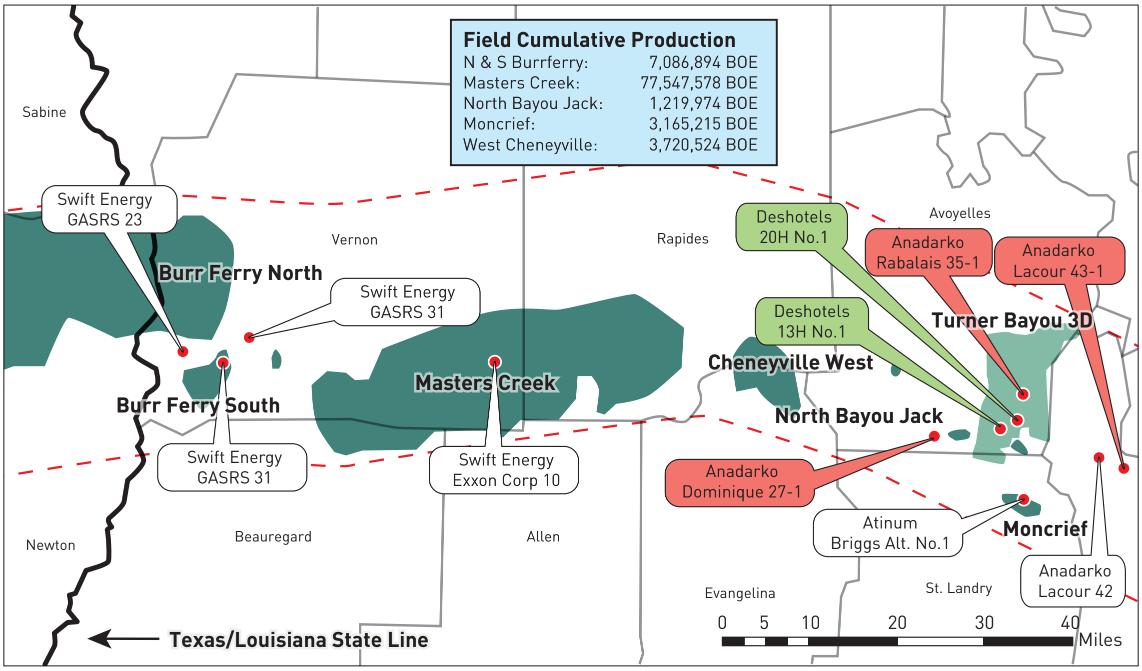

Figure 2

Austin Chalk Initial Potential Rates

Operator	Well	Oil (bopd)	Gas (mcfd)	Water (bwpd)
Anadarko Petroleum	Lacour 43-1	3,000	2,500	600
Atinum Operating, Inc	Briggs Alt. No.1	2,184	6,795	3,276
Nelson Energy	Deshotels 13H No.1	1,167	644	350
Anadarko Petroleum	GASRS 5 No.1	1,073	12,663	5,465
Anadarko Petroleum	Dominique 27 No.1	753	1,151	1,484
Nelson Energy	Deshotels 20H No.1	600	458	0
Anadarko Petroleum	GASRS 18 No.1	500	7,000	6,672
Anadarko Petroleum	GASRS 16 No.1	203	1,127	259

Table 1

Louisiana Department of Natural Resources www.sonris.com
Nelson Energy as operator denotes Pryme owned wells

Projects (cont.)

Deshotels 20H (40% Working Interest / 30% NRI)

The first Pryme well to be drilled in the Turner Bayou Chalk project, the Deshotels 20H, was drilled to 16,400 feet vertically to test the Tuscaloosa Marine Shale prior to drilling the lateral in the Austin Chalk. Following the pilot hole, which encountered very encouraging oil and gas shows on the mud log in the TMS section, a plug was set above the Austin Chalk formation at a vertical depth of 14,700 feet and the drill was kicked off to commence the horizontal portion of the well. The lateral was drilled to a length of 3,750 feet for a total measured depth of 18,748 feet. The well was drilled under balanced. A large number of very significant oil and gas shows were encountered while drilling the lateral and oil and gas were produced to the surface and flared.

A production liner was run in the lateral. It was cemented and then perforated at locations corresponding to major fracture zones identified in the mud log. The operator intended to isolate and acidize specific zones within the lateral. However, due to difficulty in isolating the zones as a result of mechanical problems within the vertical portion of the liner, it was determined that a major acidization treatment of the entire perforated interval would be undertaken. In these circumstances it was not possible to direct the acid to the priority parts of the lateral. Despite the problems encountered in completion of the well, production testing returned an initial potential of 600 Bbls per day of oil and 458 Mcf per day of natural gas. A subsequent production log run indicated that the majority of the oil was coming from 3 of the 17 perforated intervals and that there was little or no connectivity between the majority of the fractures and the well bore.

The Deshotels 20H well has produced 56,000 Bbls of oil since commencing production in December 2010. At commencement of production the well flowed at a stabilized rate of approximately 200 Bbls per day of oil and has since declined to around 75 Bbls of oil per day (23 Bbls of oil per day net to Pryme).

In an effort to improve the production rate, the operator has tested the potential to artificially lift this well. A production rate of approximately 1,000 Bbls of oil per day was achieved by simulation of an artificial lift system through nitrogen jetting. This result indicates that the well is performing at substantially below its optimal production rate as a consequence of the mechanical problems encountered during completion. A lift system is being designed to enhance the well's production and, with lifting, the estimated ultimate recovery (EUR) from currently open fractures is calculated to be approximately 350,000 Bbls of oil. Furthermore, it has been estimated that remediation of the perforated intervals which are not contributing to current production could increase the EUR up to as much as 500,000 Bbls of oil.

The production unit containing the Deshotels 20H well (approximately 1,200 acres) is held by production and has potential to contain at least one more well to fully drain the unit.

Production facilities at Turner Bayou

Projects (cont.)

Deshotels 13H (40% Working Interest / 30% NRI)

The second well to be drilled in the Turner Bayou Chalk project, the Deshotels 13H, reached a true vertical depth of 15,132 feet and a total measured depth of 19,029 feet including the lateral in the Austin Chalk formation. This well also encountered many hydrocarbon filled fractures; a Baker Hughes Star Trak imaging tool recorded 128 open fractures as well as 18 small faults. Based on mud log and electric log interpretation the well appeared to have the potential to be an excellent producer.

As part of the completion process, a Packers Plus liner was run in the hole to a depth of 18,789 feet. After running the liner and, prior to running production tubing, the casing was pressured up and the Packers Plus bottom port opened prematurely and the well started to flow substantial oil and natural gas at the surface. The surface pressure was 3,536 psi and the well had to be "killed" by bull heading a 200 Bbl pill of 18 ppg mud and installing a bridge plug inside the 5 1/2 inch casing above the Austin Chalk formation.

The well was subsequently re-entered. However, due to damage to the Packers Plus liner and the packer installed in the vertical section of the well, it was not possible to operate the port opening actuators. It became necessary to mill out the liner port sleeves and perforate it using conventional means, to establish connectivity between the oil and natural gas fractures in the well bore and the production liner. Initial total fluid flow rates as high as 75 Bbls per hour (1,800 Bbls per day), with flowing casing pressures at 3,675 psi on a 16/64 inch choke were achieved. However, it is believed that the formation had been damaged as a result of the volume of mud and other fluids injected into the bore at the time of the over-pressuring incident and the well has failed to meet production expectations.

To date the well has produced approximately 6,000 Bbls of oil and it is now producing at around 65 Bbls of oil per day with pump assistance. Pryme believes that, had the formation around the well bore not been damaged as a result of the failure of the Packers Plus liner and the subsequent remedial work, the well would probably be producing in excess of 1,000 Bbls per day.

At this stage the production unit containing the Deshotels 13H well (approximately 1,000 acres) is held by production and has potential to contain at least one more well. Remediation plans for the well include redrilling the lateral from the existing vertical well or redrilling the well in its entirety. A firm plan has not yet been developed as our focus remains on the development of acreage not held by production.

Flow testing the Deshotels 13H No.1 well in the Turner Bayou Chalk project

Rabalais 35-1 (8.8% Working Interest / 6.6% NRI)

Pryme elected to participate in an Austin Chalk well to be drilled by Anadarko Petroleum Corporation (NYSE: APC) ("Anadarko") within the northern portion of the Turner Bayou Chalk project acreage. The objectives in participating in this well were to obtain information on the production potential of the northern portion of the acreage and to expand Pryme's experience in drilling and completing horizontal wells in the Austin Chalk formation. Pryme's low working interest in this well reflects the small acreage held by the Company in the drilling unit containing the well.

The Rabalais 35-1 well was drilled to a vertical depth of approximately 14,850 feet, with approximately 6,200 feet of lateral development in the Austin Chalk formation, for a total measured depth of 21,050 feet. Drilling of the well commenced on 10 November 2011 and reached target depth on 6 January 2012.

The well was drilled overbalanced (the pressure of drilling mud slightly exceeded the formation pressure) which supressed most of the evidence of oil and natural gas shows in the mud log. A three and a half inch slotted production liner was installed in the horizontal leg and tubing was run to surface in the vertical section of the well. This completion technique is different to that which was adopted for both the Deshotels 20H and 13H wells; it has been successfully demonstrated in Anadarko's Lacour 43-1 well which initially tested at over 3,000 barrels of oil per day, the highest initial rate achieved to date in the region.

After an attempt to flow the well to surface, Anadarko advised that the well would be shut in for approximately one month to allow pressure to build up and to facilitate further evaluation of its commercial potential.

Projects (cont.)

Although the production potential of the Rabalais 35-1 well remains uncertain, based on well performance during drilling, initial flow back data and the interpreted fracture intensity of the location in which the well was drilled, it is Pryme's view that the well is unlikely to produce commercial quantities of oil and natural gas. It is believed that the Rabalais 35-1 well result has defined the northern limit of the prospective portion of the Turner Bayou Austin Chalk project. The result does not reduce Pryme's conviction of the attractive commercial potential of its Turner Bayou Chalk project acreage.

Costs to date for the Rabalais 35-1 well have been significantly below budget.

Further Appraisal in Turner Bayou

Both Deshotels wells have had mechanical and formation damage issues which have led to severe under performance. This damage is largely attributed to inappropriate completion techniques. In Pryme's opinion, supported by independent technical advice, the best way to drill and complete horizontal wells in the Austin Chalk formation is to drill under balanced and flow back through either a slotted liner within the lateral or an open hole lateral to maximise the removal of drilling muds and fluids at the earliest possible time. This approach will be adopted in future wells. Horizontal wells in the Austin Chalk have the potential to initially produce significantly more than 1,000 Bbls of oil per day.

Pryme remains committed to the Turner Bayou Chalk project and to successful oil production from the Austin Chalk formation to realise the untapped value of the project for the benefit of shareholders.

Pumping Unit on Deshotels 13H well

Catahoula Lake Project (50% WI / 37.5% NRI)

The Catahoula Lake project is located in LaSalle, Rapides and Grant parishes, Louisiana. Sales for the year were 5,893 Bbls of oil net to Pryme, providing a slight increase in production over the 2011 calendar year. Average sales net to Pryme were 16 Bbls of oil per day for the year.

In February 2012, Pryme completed the sale of its interest in the project to the Sanchez Oil and Gas Group. The sale proceeds of US$1.625m provide a modest profit over the carrying value of the project.

Catahoula Lake has provided valuable income for Pryme over the past few years. However, the funds realised through the sale will assist Pryme to focus on its flagship oil project, Turner Bayou, and to pursue other exploration opportunities with greater prospectivity.

LaSalle Parish Project (8% - 21.5% Interest)

The LaSalle Parish project is located in LaSalle Parish, Louisiana near the town of Jena.

Pryme's share of oil sales for the year was 8,592 barrels (23 average Bbls per day net to Pryme), an 11% reduction over the previous year. The reduction was attributable to normal decline. No new wells were drilled during 2011. However, several workovers were undertaken. Realised oil prices for 2011 averaged US$107.16 per barrel.

The project has several undeveloped locations which are worthy of drilling. However, it is regarded it as a mature project.

Raven Project (35% WI / 25.38% NRI)

The Raven project covers mineral leases in the prolific Cotton Valley and Hosston natural gas trends in Lincoln Parish, Louisiana within the city limits of the town of Ruston. The project lies within a natural gas fairway of Cotton Valley marine bars which represent the development targets.

Pryme's share of natural gas and condensate sales from the three producing wells in the Raven project was 57,745Mcf of natural gas (average 158 Mcf per day net to Pryme) and 1,105 barrels of condensate (average 3 Bbls/day net to Pryme), a 35% reduction over the previous year. The decrease was attributable to natural production decline.

The United States is currently experiencing extremely low gas prices; these have had a negative impact on project revenue. Realised natural gas and condensate prices for 2011 averaged US$3.49per Mcf and US$92.46 per barrel respectively.

Projects (cont.)

Four Rivers Project (25% WI / 18.75% - 20% NRI)

The Four Rivers project extends from Winn, Concordia and Catahoula Parishes in Louisiana to Adams, Jefferson and Wilkinson Counties in Mississippi. The project targets multiple "stacked" oil zones throughout the Middle-Wilcox formation at depths ranging from 4,000 to 7,000 feet. Wells drilled in the Middle-Wilcox exhibit long production lives with low decline rates after the initial flush oil is produced and relatively steady production is established. They are relatively inexpensive to drill and typically have low operating and on-going maintenance costs.

Pryme's share of oil sales for the year was 6,318 barrels (17 average Bbls per day net to Pryme), a 40% decline over the previous year. The decrease was attributable to newly drilled wells declining from their flush production levels and normal decline. No new wells were added during 2011. Realised oil prices for 2011 averaged US$108.91 per barrel.

CORPORATE

Convertible Note

During the March quarter of 2011, Pryme 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 note matures on 13 April 2012.

The proceeds were used to fund Pryme's interest in the Turner Bayou Chalk project and, in particular, the Company's share of drilling costs for the Deshotels 13H well in this project.

The convertible note facility was 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 was 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,
- the second tranche of A$1.5 million involved a loan from BPI (BPI Loan), which was also drawn down by 30 May 2011. Subsequently shareholders approved the replacement of the BPI Loan with a A$1.5 million convertible note on the same terms as Convertible Note 1.

Rights Issue

During the June quarter, Pryme announced a non-renounceable rights issue (Rights Issue). Under the Rights Issue eligible shareholders were offered 1 new share in Pryme for every 7 fully paid ordinary shares held at the Record Date, at a price of $0.125 per share. The Company issued 32,230,168 new shares and raised approximately $4 million under the Rights Issue.

The additional funds, after the expenses of the Rights Issue and normal working capital requirements, were used primarily to ensure that, in the event of cost overruns on the Deshotels 13H well in the Turner Bayou Chalk project, the Company could continue to fund its proportionate share.

APPENDIX

Competent Person Statement

Technical information contained in this report has been reviewed by Mr Greg Short, BSc. Geology (Hons), a Director of Pryme who has more than 33 years' experience in the practise of petroleum geology. Mr Short reviewed this report and consents to the inclusion of the geological and engineering descriptions and any estimated hydrocarbons in place in the form and context in which they appear. Any resource estimates contained in this report are in accordance with the standard definitions set out by the Society of Petroleum Engineers, further information on which is available at www.spe.org.

Corporate Governance Statement

Pryme's Board of Directors believes there is a strong link between high standards of corporate governance and equity performance. We are committed to operating in accordance with Pryme's corporate governance policies in all aspects of our business.

We believe that good corporate governance is about conducting business in a transparent and ethical way that enhances value for all of our stakeholders. We expect all Pryme personnel to demonstrate high ethical standards and respect for others. We operate in an open, honest and collaborative fashion with all stakeholders and our corporate integrity is of the greatest importance.

The Board is responsible for the corporate governance of the group. The Board's guiding principle is that it acts honestly, conscientiously and fairly, in accordance with the law and in the interests of Pryme's shareholders, personnel and other stakeholders.

Pryme ensures, wherever possible, that its practices are consistent with the Second Edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Principles and Recommendations (ASX Principles). In certain circumstances, due to the size and stage of development of Pryme, it may not be practicable or necessary to implement the ASX Principles in their entirety. Pryme's statement of conformity to the ASX Principles is set out below, areas of divergence are noted.

Principle 1 – Lay solid foundations for management and oversight

The Board's key responsibility is the creation, enhancement and protection of long-term shareholder value within an appropriate risk framework. Pryme's commitment to governance and the Board's role, responsibilities and conduct are contained in the Board Charter which has been approved by the Board and is published on the Pryme website, www.prymeenergy.com, under the Corporate Governance tab. The Board Charter is reviewed and amended from time to time as appropriate.

The Board establishes the strategic direction and policy framework within which the day-to-day business of the Company is managed. Management's role is to manage Pryme in accordance with the direction and delegations of the Board and the Board is responsible for overseeing the activities of management in carrying out these delegated duties.

Board members are committed to spending sufficient time to enable them to carry out their duties as Directors of Pryme. Candidates for Director must confirm that they have the necessary time to devote to their Board position prior to appointment. Non-executive Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Executives are provided with a formal job description and an employment contract describing their term of appointment, duties, rights, responsibilities and rights on termination. Executives are subject to a formal performance review process on an annual basis. The focus of the review is to measure performance against qualitative and quantitative key performance indicators which, where appropriate, are linked to long term incentive components of each executive's remuneration package. This ensures objectives are aligned to Pryme's business plan. The formal performance review process was undertaken during 2011.

Executives also undergo an induction program to gain an understanding of Pryme's financial position, its strategies, operations and risk management framework and the respective roles of the Board and management.

In addition to its executive management team, Pryme engages technically experienced, consultants with valuable knowledge and experience in petroleum engineering, oil and gas leasing, land management and geology.

Principle 2 – Structure the Board to add value

Pryme currently has four Directors, two of whom are Executive Directors, Mr Justin Pettett who is the Managing Director and Chief Executive Officer and Mr Ryan Messer who is the Chief Operating Officer. The Chairman, Mr George Lloyd, and Mr Gregory Short are Independent Non-executive Directors. There is a clear division of responsibility between the Chairman and the Chief Executive Officer.

Pryme does not comply with ASX Principle 2.1 which requires that a majority of the Board should be Independent. The Board believes that, given the size of the Company, the nature of its operations and the ability of all incumbent directors to bring an independent judgement to bear in Board deliberations, a four member Board comprising at least two independent directors is appropriate for the Company in its present stage of development.

It is intended that the composition of the Board be balanced, with Directors possessing an appropriate mix of skills, experience, expertise, qualifications and contacts relevant to Pryme's business. The qualifications, experience and tenure of the Directors are set out in the 2011 Directors' Report. The Board Charter and the Remuneration & Nomination Committee Charter outline in more detail the procedure for the selection and appointment of new directors.

Corporate Governance Statement

The Board considers that independent decision-making is critical to effective governance. Independent directors are those who have the ability to exercise their duties unfettered by any business or other relationships and are willing to express an objective opinion. The independence of Non-executive Directors is assessed annually by the Board against the definition outlined in the Board Charter. It is the approach and attitude of each Non-Executive Director which is critical to determining independence and this must be considered in relation to each Director while taking into account all relevant factors, which may include whether the Non-executive Director:

(a) holds less than five percent of the voting shares of Pryme (in conjunction with their associates) and is not an officer, or otherwise associated directly with a holder of more than five percent of the voting shares of Pryme;

(b) has within the last three years been employed in an executive capacity by Pryme or another group member, or has been a Director after ceasing to hold any such employment;

(c) has within the last three years been a principal of a material professional adviser or a material consultant to Pryme or another group member, or an employee materially associated with the service provided. In this context, the relationship with the professional adviser or consultant shall be deemed to be material if payments from Pryme exceed 10% of Pryme's annual expenditure to all professionals and consultants or exceed 10% of the recipient's annual revenue for advisory or consultancy services;

(d) is a material supplier or customer of Pryme or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer. In this context, the relationship with the supplier or customer shall be deemed to be material if annual payments to or from that supplier or customer exceed 10% of the annual consolidated gross revenue of either Pryme or that supplier or customer; and

(e) has a material contractual relationship with Pryme or other group member other than as a Director of Pryme.

The Pryme Constitution states that at each Annual General Meeting (AGM) one-third of the Directors (excluding the Managing Director) and any Director who has held office for three or more years since their last election are required to retire from office. Any Director appointed by the Board since the previous AGM must stand for election at the next AGM. Retiring Directors are eligible for re-election.

New Directors undergo an induction process in which they are given a full briefing on Pryme. Where possible, this includes meetings with key executives, tours of the operating sites (if practicable), provision of an induction package containing key corporate information and presentations.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. This includes education concerning key developments in the Company and in the industry and environment in which the Company operates.

Each Director has the right of access to all Pryme information and to Pryme's executives. Further, the Board collectively and each Director individually, subject to informing the Chairman, has the right to seek independent professional advice from a suitably qualified advisor, at Pryme's expense, up to specified limits, to assist them to carry out their responsibilities. Where appropriate, a copy of this advice is to be made available to all other members of the Board.

The Board has established a Remuneration & Nomination Committee which is primarily responsible for determining remuneration, establishment of recruitment policies and procedures, reviewing the performance of Directors and senior executives and reviewing the composition and competencies of the Board. The Committee Charter is reviewed annually and is available on the Company's website.

Given the small number of Directors, the Committee is comprised of both the Non-executive Directors, with the Committee Chairman being Mr George Lloyd, an independent Director. Accordingly, the Company does not wholly comply with ASX Principle 2.4 and 8.2 which recommend that the Committee comprise of at least three members with majority of them being independent. However given the size of the Company and the stage of its development, the Board considers the Committee to be of sufficient size and independence to perform its functions effectively.

Details of the Committee member's attendance at Committee meetings are set out in the 2011 Directors' Report.

The Board carries out a Board performance assessment on an annual basis. The performance of the Chairman is reviewed and assessed by the other Directors, and the Chairman reviews and assesses the performance of the other Directors. The outcomes of the reviews form the basis for a series of matters arising which the Board

Corporate Governance Statement

addresses over the short to medium term. A performance assessment of the Board was undertaken during 2011 in accordance with the process described in this section.

The Board conducts formal strategy sessions as appropriate to provide the opportunity for Directors and management to review operations and consider proposed future activities. Given the size of the Board and management team there are also frequent opportunities for less formal strategy discussions.

Principle 3 – Promote ethical and responsible decision-making

The Board has adopted a Code of Conduct and Ethics which is published on the Company's website. The Board, senior executives and all employees are committed to implementing and complying with the Code. The Code requires that the Company and its employees, consultants, contractors, advisors and all other people when they represent Pryme operate to the highest standards of ethical behaviour, honesty and fairness in relationships with stakeholders. Stakeholders include employees, contractors, clients, customers, suppliers, joint venture partners, shareholders, government authorities, regulators, creditors and the community as whole.

It is in the best interests of Pryme for all personnel to immediately report any observance of a breach of the Code. All personnel are requested to report immediately any circumstances which may involve a breach of this Code to the Company Secretary, the Managing Director or the Chairman.

Any breach of applicable laws, accepted ethical commercial practices or other aspects of the Code of Conduct and Ethics will result in disciplinary action.

The Company has adopted a Securities Trading Policy in line with the updated ASX Listing Rules and Guidance Note to regulate dealings by the Company's directors, employees and all other people when they represent Pryme.

Consistent with the legal prohibitions on insider trading contained in the Corporations Act, all Pryme personnel are prohibited from trading in Pryme's securities while in possession of material non–public information. Material non-public information is information, which a reasonable person would expect to have a material affect on the price or value of Pryme's securities. The policy allows Pryme personnel, and their related parties, to buy or sell shares only during board sanctioned windows which include the six weeks period commencing the first trading day after the announcement of the Appendix 5B, the full year results, the half year results; the date of the AGM and such other dates as the Board determines. Trading outside the permitted windows is allowed only in exceptional circumstances with the prior written approval of the Board at least two business days prior to any proposed trade.

Any transaction with Pryme shares conducted by Directors is notified to the ASX. Each Director has entered into an agreement with the group to provide information to enable Pryme to notify the ASX of any share transactions within five business days.

A copy of the Securities Trading Policy is available on the Corporate Governance section of the Company's website and has also been lodged with the ASX.

Given the size and scale of operations of the Company, the Board has decided not to adopt a Diversity Policy at this stage. Accordingly, the Board has not yet set any measurable objectives for achieving gender diversity.

The percentage of women employees in the whole organisation, senior management and the Board are as follows:

Whole organisation: 33.33%
Senior Management: 33.33%
Pryme Board: NIL

Principle 4 – Safeguard integrity in financial reporting

The Board has established an Audit Committee, comprising the two Non-executive Directors, which is primarily responsible for determining the reliability and integrity of financial information to be included in the financial statements, accounts and other reports of Pryme, for ensuring the independence of external auditors and for financial risk management.

Mr George Lloyd, the Chairman of the Board, is also Chairman of the Audit Committee. Accordingly, the Company does not comply with ASX Principle 4.2 which recommends that the Chairman of the Board not be the Chairman of the Audit Committee and that the Committee consist of at least three members. However, the Board considers Mr Lloyd, who is an independent director, is the most appropriately qualified of all incumbent Directors to be charged with this responsibility. The Board also considers the size of the Committee to be appropriate for the size and scale of the Company at this time.

The Audit Committee operates in accordance with its Charter which has been approved by the Board and is published on Pryme's website. The Charter is reviewed regularly to ensure that it conforms to market practices. Importantly, at its absolute discretion, the Committee, or

Corporate Governance Statement

its members, may meet outside of a Committee Meeting with the external auditors of Pryme.

Details of the Committee member's attendance at Committee meetings are set out in the 2011 Directors' Report.

The Audit Committee is responsible for reviewing the nomination, performance and independence of the external auditors. Candidates for the position of external auditor of Pryme must be able to demonstrate complete independence from Pryme and an ability to maintain independence throughout the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis. Other than this mandatory criteria, the Board may select an external auditor based on criteria relevant to the business of Pryme such as experience in the industry in which Pryme operates, references, cost and any other matters deemed relevant by the Board.

The Board reviews the performance and independence of the external auditor on an annual basis. At the time of the half-year review and full-year audit of the Pryme financial statements, the external auditor formally presents to the Audit Committee a certificate confirming their independence. The external auditor's independence statement is included in the Audit Committee Report to the Board.

Principle 5 – Make timely and balanced disclosure

Pryme fully supports the continuous disclosure regime and its current practice is consistent with the Principles. Pryme has in place mechanisms to ensure that:

(a) all investors have equal and timely access to material information concerning Pryme; and

(b) all announcements released by Pryme are factual, presented in a clear and balanced way, do not omit any material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

Pryme has a Board approved Continuous Disclosure Policy for ensuring compliance with ASX Listing Rule disclosure requirements. The Board has designated Pryme's Managing Director, with the assistance of the Company Secretary, as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

In accordance with the ASX Listing Rules, Pryme immediately notifies the ASX of information:

1. concerning Pryme that a reasonable person would expect to have a material effect on the price or value of Pryme's shares; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of Pryme's shares.

Upon confirmation of receipt from the ASX, Pryme posts all information disclosed in accordance with this policy on its website in an area accessible by the public.

A copy of the Continuous Disclosure Policy is available on the Pryme website.

To enhance clarity and balance in reporting, and to enable investors to make an informed assessment of Pryme's performance, financial results are accompanied by a commentary.

Principle 6 – Respect the rights of shareholders

The Board is committed to communicating with shareholders regularly and clearly.

Pryme is committed to:

- communicating effectively with shareholders through releases to the market via ASX, Pryme's website, information mailed to shareholders and general meetings of shareholders;
- giving shareholders ready access to balanced and understandable information about Pryme and corporate proposals; and
- making it easy for shareholders to participate in general meetings of Pryme.

The Annual Report, half-year report, Annual General Meeting and specific investor briefings are all important communication forums. The group encourages shareholders to attend and participate at general meetings to ensure accountability. Pryme welcomes questions from shareholders at any time and these will be answered within the confines of information that is already in the public domain and is not market sensitive. The external auditor attends the AGM and is available to answer any questions with regard to the conduct of the audit and the corresponding report.

Shareholder communication is conducted in accordance with the Pryme Continuous Disclosure Policy and

Corporate Governance Statement

Shareholder Communication Policy, both of which are published on the Pryme website.

Pryme also makes available various communication avenues for shareholders to make enquiries of Pryme.

The following documents that address corporate governance are available within the Corporate Governance section of Pryme's website:

- Corporate Governance Statement
- Board Charter
- Audit Committee Charter
- Remuneration and Nomination Committee Charter
- Code of Conduct and Ethics
- Continuous Disclosure Policy
- Risk Management Policy
- Shareholder Communications Policy
- Securities Trading Policy
- Environmental Management, Health and Safety Policy

Where possible, Pryme will arrange for advance notification to shareholders of significant group briefings. Presentations to be made at such briefings, which contain information not previously released to shareholders, will be released via the ASX and published on the Company's website. The Company will also keep a summary record (for internal use) of the issues discussed at briefings with investors and analysts.

Principle 7 – Recognise and manage risk

The Board is responsible for establishing policies on risk management and internal control and acknowledges the importance of effective risk management to the long term success of Pryme. Pryme has a Board approved Risk Management Policy, published on the website, that assists the group in identifying and managing risk in accordance with best practice.

The Board has implemented the following control framework:

Financial reporting: A comprehensive budget is approved by the Board. Monthly results are reported against budget and revised forecasts are prepared regularly;

Special functional reporting: The Board has identified a number of key areas which are subject to regular reporting to the Board such as safety, environmental, insurance and operation matters; and

Investment appraisal: The Board has set clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements. Capital expenditure and revenue commitments that exceed a delegated authority will require prior Board approval. Procedures have been established to ensure business transactions are properly authorised and executed. Compliance with these procedures may be scrutinised by the external auditor.

Due to the size and scale of operations of Pryme, there is no separate internal audit function. The Executive Directors and the Chief Financial Officer presently carry out an internal audit to analyse and give an appraisal of the adequacy and effectiveness of Pryme's risk management and internal control system. This internal audit is independent of the external auditor. The risk management and internal control system will be reviewed by the Board at least annually. In addition, the Board reviews and discusses current and emerging material risks at each Board Meeting.

Management is responsible for designing and implementing the risk management framework. Management identifies and reviews the major risks impacting each area of the business and develops strategies to effectively mitigate these risks. To date, at the time the Board approves the half and full-year results, the Managing Director, Chief Operating Officer and the Chief Financial Officer have represented to the Audit Committee and the Board that, to the best of their knowledge:

- the statement given in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal compliance and control; and
- Pryme's risk management and internal compliance and control system is operating efficiently and effectively in all material respects in relation to financial reporting risks.

As recommended by the ASX Principles, Management will report to the Board on the effectiveness of Pryme's management of its material business risks with respect to future reporting periods.

Principle 8 – Remunerate fairly and responsibly

As described previously, the Remuneration & Nomination Committee has been established to review all remuneration and performance related matters of Pryme and to operate in accordance with its Charter. As also previously noted, the Committee composition does not fully comply with Recommendation 8.2 which recommends that the

Corporate Governance Statement

Committee comprise of at least three members with majority of them being independent. However given the size of the Company and the stage of its development, the Board considers the Committee to be of sufficient size and independence to perform its functions effectively.

The Committee will assist the Board in fulfilling its responsibilities with respect to establishing appropriate remuneration levels and incentive policies for employees.

All directors are invited to attend Committee meetings; however, "interested" directors do not vote on related matters. Senior executives are not directly involved in determining their remuneration.

In relation to remuneration issues, the Board has established a policy to ensure that it remunerates fairly and responsibly. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated directors and employees. The structure of executive remuneration is distinctly different to that of Non-executive Directors which is detailed in the Remuneration Report. The policy is designed for:

(a) decisions in relation to the constituents of executive and Non-executive remuneration policy;

(b) decisions in relation to executive remuneration packages;

(c) decisions in relation to merit recognition arrangements and termination arrangements; and

(d) ensuring that any equity-based executive remuneration is made in accordance with the thresholds set in plans approved by shareholders.

The Pryme Personnel Securities Trading Policy states that executives are not permitted to enter into transactions in financial products, securities or derivatives which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes.

The Remuneration Report for the 2011 year and further details about the Remuneration Policy of Pryme are set out in the 2011 Directors' Report.

Directors' Report

In accordance with a resolution of directors, the directors present their report together with the Financial Report of Pryme Energy Limited (Pryme) and its wholly owned subsidiaries (together referred to as the Consolidated Group) for the financial year ended 31 December 2011 and the Independent Audit Report thereon. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

1. Directors

The directors of Pryme at any time during or since the end of the financial year are:

(a) George Lloyd – Chairman

Independent Non–Executive Director (Appointed 29 January 2008)

Mr Lloyd has a Bachelors degree in Engineering Science (Industrial Engineering) as well as a Masters degree in Business Administration, both from the University of New South Wales. He is a graduate of the Stanford Executive Program, Stanford University, California and is also a Fellow of the Australasian Institute of Mining and Metallurgy.

He has more than 30 years senior management experience in the resources and energy sectors, with a focus on business development, corporate strategy, mergers and acquisitions and exploration management. He is the Chairman of AWR Lloyd Limited, an Asian-based corporate finance and strategy advisor to the energy, mining and metals industries in the Asia-Pacific region.

He also holds, or has held during the past three years, directorships in the following ASX listed companies:

- Cape Alumina Limited (Chairman, appointed January 2009); and
- Ausenco Limited (Non-Executive Director, appointed May 2005).

(b) Justin Pettett - Managing Director and Chief Executive Officer

Executive Director (Appointed 1 December 2005)

Mr Pettett is a co-founder of Pryme and has broad experience as a public company director with positions in senior management.

Mr Pettett has over 16 years experience at a Managing Director and CEO level of medium sized businesses, the last ten specifically in the oil and gas industry focused primarily in the United States. He has drilled over 140 wells in Louisiana and Texas, resulting in the discovery of new oil fields. He has also participated in the drilling of conventional natural gas wells in Oklahoma and has co-managed the development of a 27 well coal bed methane field.

Mr Pettett has widespread experience and knowledge from the board room through to the oil field covering many facets of the oil and gas industry.

Mr Pettett is an associate member of the American Association of Petroleum Geologists and a member of the Australian Institute of Company Directors.

With the exception of Pryme, Mr Pettett has not served as a director of any Australian listed entity in the last three years.

(c) Ryan Messer - Chief Operating Officer

Executive Director (Appointed 1 December 2005)

Mr Messer, a co-founder of Pryme, graduated from the University of Central Florida with a degree in Business Administration, majoring in Marketing and Finance and is a member of the Independent Petroleum Association of America.

Mr Messer has 13 years of experience in international business, five of which were in management positions in the technology sector focused on developing business within Fortune 500 accounts. During the past eight years Mr Messer has been involved in the energy sector in the areas of oil and gas project finance, asset acquisition and divestiture, asset allocation, and risk assessment. He has experience in managing field and land rig operations, developing midstream assets and assisting in the formation of technical teams, all of which were derived from the drilling of over 130 wells, and the resulting field development, spread across five basins within North America.

With the exception of Pryme, Mr Messer has not served as a director of any Australian listed entity in the last three years.

Directors' Report

(d) Gregory Short

Independent Non – Executive Director (Appointed 21 January 2010)

Mr Short holds a Bachelor's degree in Geology from the University of New England and is a Graduate of the Australian Institute of Company Directors.

Mr Short is a geologist with over 30 years experience in petroleum exploration, initially as a production and operations geologist then rapidly advancing to supervisory and management positions. His experience includes 15 years overseas in senior exploration management positions in the USA, Europe and Africa. In the USA he was responsible for all of Exxon's petroleum exploration activities which included onshore and offshore Gulf Coast exploration.

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.

He also holds directorships in the following ASX listed companies:

- MEO Australia Limited (Non-Executive Director, appointed July 2008); and
- Po Valley Energy (Non-Executive Director, appointed July 2010).

2. Company Secretary

Swapna Keskar (MCom, LLB) is a company secretary of a number of unlisted entities and is a member of Chartered Secretaries Australia, The Institute of Company Secretaries and Administrators, UK and the Institute of Company Secretaries of India.

3. Principal Activities

The principal activities of the Consolidated Group during the year under review were exploring and developing oil and gas prospects in the United States of America. There have been no changes in the nature of these activities during the year.

4. Review of Operations and State of Affairs

A review of, and information about, the Consolidated Group's operations, including the results of those operations and changes in its state of affairs during the year together with the information about the financial position of the Consolidated Group appears in the 2011 Annual Report. There are no other significant changes in the state of affairs of the Consolidated Group.

5. Events Subsequent to Reporting Date

Other than the matter discussed below, in the opinion of the directors, there has not arisen in the interval between the end of the financial year and the date of the report any matter or circumstance that has significantly affected, or may significantly affect the Consolidated Group's operations, results or the state of affairs in future financial years:

- As announced to the ASX on 27 February 2012, the Company successfully negotiated the sale of its interest in the Catahoula Lake project in LaSalle, Rapides and Grant parishes, Louisiana to the Sanchez Oil and Gas Group for a total sales price of US$1.625m.

6. Likely Developments

The Consolidated Group intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America. The strategies and objectives of the Consolidated Group are reviewed and discussed in greater detail in the 2011 Annual Report.

Certain information about the likely developments in, and expected results of, the operations of the Consolidated Group in future years, the strategies of the Consolidated Group and its prospects for future financial years has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the implementation and execution of the Consolidated Group's business strategies.

Directors' Report

7. Environmental Regulations and Performance

The Consolidated Group has various permits and licenses to operate in the United States of America. There have been no significant known breaches of the Consolidated Group's licence or permit conditions. Furthermore, no government agency has notified the Consolidated Group of any environmental breaches during the period ended 31 December 2011.

8. Dividends

No dividend was paid, recommended for payment or declared during the year under review.

9. Options and Rights

Unissued Shares Under Option

At the 2010 Annual General Meeting, shareholders approved the grant of 500,000 $0.15 options over unissued ordinary shares to Mr Gregory Short as an incentive attaching to his Directorship. The options were available to be exercised after 20 January 2011 and had an expiry date of 20 January 2012. No options were exercised prior to the expiry date and accordingly at the date of this report there are no unissued shares under option.

		Held at 1 January 2011	Granted	Exercised	Expired	Held at the 31 December 2011	Vested during the year	Vested and exercisable as at 31 December 2011
Greg Short	2011	500,000	-	-	-	500,000	500,000	500,000
	2010	-	500,000	-	-	500,000	-	-

Unissued Shares to be Allocated upon Conversion of Performance Rights/Restricted Stock Units

As at 31 December 2011, there were 2,484,429 unissued ordinary shares of Pryme that may be allocated upon conversion of Performance Rights/Restricted Stock Units. Subject to the applicable tenure conditions being satisfied, the timing for vesting of the shares is as follows:

	Vesting Date	Number of Shares
2009 Long Term Incentive Plan	01 January 2012	553,427 #
2010 Long Term Incentive Plan	01 January 2012	965,501 #
2010 Long Term Incentive Plan	01 January 2013	965,501
Total		2,484,429

As announced to the ASX on 3 January 2012, 1,518,928 Performance Rights and Restricted Stock Units shown above were due to vest on 1 January 2012. These Performance Rights and Restricted Stock Units subsequently vested and were converted to ordinary shares on 3 January 2012.

Directors' Report

10. Directors' Meetings

The number of meetings of the Board and of each Board Committee held during the year (while each Director was a Director or committee member) and the number of meetings attended by each director are set out below:

	Board Of Directors		Audit Committee (#)		Remuneration & Nomination Committee(##)	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
George Lloyd	14	14	3	3	1	1
Justin Pettett	14	14	3 (#)	3(#)	1(##)	1(##)
Ryan Messer	14	14	3(#)	3(#)	1(##)	1(##)
Greg Short	14	14	3	3	1	1

Committee comprises Non-Executive Directors, although Executive Directors are invited to attend Audit Committee Meetings.

Committee comprises Non-Executive Directors, although Executive Directors were invited to attend this Remuneration & Nomination Committee Meeting.

11. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2011 are as follows:

Director	Ordinary Shares	Entitlement to Ordinary Shares[1]	Options over Ordinary Shares	American Depository Receipts
Justin Pettett	5,437,679	1,131,754[2]	-	-
Ryan Messer	3,337,759	1,131,754[2]	-	1,110[3]
George Lloyd	4,417,144	-	-	-
Greg Short	210,000	-	500,000[4]	-

1 Further information on securities granted to directors as part of their remuneration is set out in Note 5 of the Financial Statements.
2 These shares are subject to vesting requirements as set out in the Remuneration Report.
3 Equivalent to 11,100 ordinary shares.
4 These options expired on 20 January 2012.

Other than as stated above in relation to awards under the Pryme Energy Long Term Inventive Plan, there are no contracts to which a director is a party or under which a director is entitled to a benefit that confer a right for the director to call for shares in Pryme.

12. Remuneration Report

The directors of Pryme present the Remuneration Report prepared in accordance with Section 300A of the Corporations Act, Accounting Standard AASB 124 Related Party Disclosures and Principle 8 of the ASX Corporate Governance Principles and Recommendations.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act. This remuneration report forms part of the Directors' Report.

Remuneration Policies and Practices

The Remuneration Committee and the Board regularly review the remuneration policies and practices of Pryme to ensure that it remunerates fairly and responsibly. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated directors and employees.

Directors' Report

Non-Executive Director Remuneration

The Non-Executive Directors are remunerated as described below.

Fees

Non-executive director fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders at a general meeting. The current limit is $300,000. During the year ended 31 December 2011, $207,670 (2010: $187,143) of the fee pool was used.

Upon shareholder approval at the Annual General Meeting held on 19 April 2010, Mr Greg Short was issued 500,000 options as an incentive attaching to his Directorship. These options are exercisable at $0.15 each after 20 January 2011. No options were exercised prior to the expiry date of 20 January 2012.

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

Where applicable, Pryme pays Australian resident non-executive directors the statutory superannuation guarantee contribution.

Executive Remuneration

At Pryme, Executive Remuneration consists of:

- Total Remuneration (TR) = Fixed Remuneration (FR) + Short Term Incentive (STI) + Long Term Incentive (LTI)
- TR for Executive Directors includes Directors Fees which are paid in addition to FR and, for the purposes of calculation of incentive remuneration, do not comprise part of FR.
- STI and LTI are the 'at risk' portions of remuneration.
- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis.
- LTI is delivered in an equity award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.
- The Board may also determine to pay a bonus in cash in circumstances of outstanding performance not otherwise appropriately rewarded.
- The Remuneration Committee will review the structure of at risk remuneration from time to time and report to the board. Such a review may include, but not be limited to, changing the proportion of Total Remuneration which is at risk, the payment of Short Term and Long Term Incentives and the proportion of the at risk remuneration between Short Term and Long Term Incentive.

Total Reward Mix

The proportion of TR at risk is generally expressed as a proportion of FR and is related to the agreement on remuneration struck between the Company and the executive, the Company's expectations of executive performance and the executive's position in the Company. However, in the case of the Chief Operating Officer, the value of TR at risk is the same as the value of the Chief Executive Officer's TR at risk irrespective of the relative levels of FR. The proportion of FR will generally not change on a year to year basis but may be reviewed and modified by the Board.

The mix of STI and LTI offered to executives will depend on their position in the Company. Generally LTI will only be available to the senior executive team; STI may be made available to employees below the senior executive team.

As a general guideline, for members of the senior executive team who receive both STI and LTI, the maximum proportion of at risk remuneration that may be payable as STI is 40%.

Directors' Report

Fixed Remuneration

FR (including the 9% superannuation levy payable as employer contribution (where applicable)) is set with reference to market data, reflecting the scope of the role and the performance of the person in the role.

At-Risk Remuneration

Clear and focused performance targets for management are critical to the success of the Company.

STI

- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis. For the 2011 year, no STI goals were established and accordingly no STI amounts were paid.

LTI

- LTI is delivered in an equity based award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.
- LTI is the key tool to allow the Company to attract and retain talented executives and ensure the interests of executives are aligned with those of Shareholders in creating long-term Shareholder value.

The LTI scheme for Pryme which was approved at the 2011 AGM provides for the grant of equity in the form of Performance Rights (PRs) which are subject to the achievement of a dual performance measure (for US residents Restricted Stock Units (RSUs), which have similar value characteristics). Each performance right that satisfies its vesting conditions can be converted to one ordinary share for nil consideration.

The at risk remuneration for 2011 as a percentage of FR is dependent on the achievement of specific hurdles, is as follows:

	Fixed Remuneration	At-Risk Remuneration
	FR %	Long Term Incentive % of FR
Managing Director & Chief Executive Officer	67	33
Chief Operating Officer	58	42 (See note below this table)
Other Executives	74	26

Note:

The value of Chief Operating Officer's TR at risk is the same as the value of the Chief Executive Officer's TR at risk irrespective of the relative levels of FR.

The hurdles under the 2011 Incentive Plan related to relative production growth and the attainment of a total shareholder return comparable with the energy sector (Performance Conditions). The performance conditions under the FY 2011 Incentive Plan were as follows:

Production Target (For which the award of up to 50% of the Total Available Incentive may be granted)		Total Shareholder Return Target (For which the award of up to 50% of the Total Available Incentive may be granted)	
Growth in Oil and Gas Sales Per Share	Portion of Total Available Incentives to be Granted	Growth in TSR	Portion of Total Available Incentives to be Granted
< 30% above previous year	Nil	< ASX 200 Energy Index growth	0
30% above previous year	20%	Equal to ASX 200 Energy Index growth	25%
> 30% and < 50% above previous year	An additional 1% for each 1% increment	Between 1 and 1.5 times ASX 200 Energy Index growth	1% for each 0.2 times increase in ASX 200 Energy Index over 1
50% or more above previous year	50%	> 1.5 times ASX 200 Energy Index growth	50%

Directors' Report

The Performance Conditions are measured in respect of the period 1 January 2011 to 31 December 2011 and are tested at 31 December 2011 (Base Date).

A second hurdle that must be met as a precondition to vesting of Incentives is continued employment with Pryme as set out below:

Time	Available Incentives to Vest
Base Date + 1 years (31 Dec 2012)	50%
Base Date + 2 years (31 Dec 2013)	50%

In accordance with sound corporate governance principles, there will be no re-test function for any awards, instead each target has a one-off 'cliff vesting'.

Relationship between Policy and Pryme's Performance

The Board believes that remuneration arrangements for employees should incorporate an "at-risk" component which is performance related and rewards employees for the achievement of goals which contribute to shareholder wealth. Such arrangements should both incentivise and reward employees for out-performance.

The Pryme Energy Long Term Incentive Plan (Plan), is designed to put a portion of executive remuneration "at-risk" and provide reasonable levels of incentives to key executives to encourage and reward performance that adds value to the Company for all Shareholders.

Specifically, the value to Shareholders will be readily measurable only if targets that align to Pyrme's strategy are met. Under the Plan, there are two hurdles which test Pryme's relative production growth and the attainment of a total shareholder return comparable with the energy sector (Performance Conditions). The Board considers it appropriate to have a dual test since:

- growth in production (represented by growth in annual sales per year of oil and gas) rewards achievement against Board approved targets/plan, converting opportunity into a revenue stream for the Company. The target is within management's influence, thereby focusing executives on Pryme's key business drivers; while
- growth in total shareholder return (TSR) component provides an additional challenging test (where reward is only delivered for strengthening Pryme's position comparable to the S&P/ASX ASX 200 Energy Index) which has the benefit of transparency and is directly related to the return to shareholders through ownership of Pryme shares relative to the returns from the S&P/ASX ASX 200 Energy Index.

The Board believes that the dual tests, if achieved, will demonstrably aid the creation of shareholder value.

Pryme's exploration, evaluation and development activities are expected to deliver results over an extended period of time and the Company's remuneration policy provides for incentives related to the successful execution of these activities. As a result, the relationship between the Company's remuneration policy and the Company's short term performance will not be immediately apparent on a year-to-year basis. This is the case in relation to earnings as the Company does not expect to record significant profit growth until additional revenues are derived from the increased oil and gas production which is expected to result from the current development programs.

The Company's performance during the year ended 31 December 2011 was primarily focussed on exploration and development of the Turner Bayou project. Production from the wells drilled during 2011 is expected to generate additional revenues in future periods and information obtained throughout the exploration, evaluation and drilling processes will contribute to the future development of this project.

Anti-Hedging Policy

Pryme personnel are not permitted to enter into transactions with securities (or any derivative thereof) which limit the economic risk of any unvested entitlements awarded under a Pryme equity-based remuneration scheme.

As part of Pryme's due diligence undertaken at the time of half-year and full-year results, Pryme equity plan participants are required to confirm that they have not entered into any such prohibited transactions.

Continuous Improvement

Pryme will continually review all elements of its remuneration philosophy to ensure that they are appropriate from the perspectives of governance, disclosure, reward and market conditions.

Directors' Report

REMUNERATION SUMMARY

		SHORT TERM		POST EMPLOYMENT	EQUITY BASED PAYMENTS[1]		TOTAL	Proportion of Remuneration Performance Related
		CASH, SALARY & FEES	RELATED PARTY CONSULTING FEES	SUPER-ANNUATION	OPTIONS	RIGHTS		
		$	$	$	$	$	$	%
NON-EXECUTIVE DIRECTORS								
George Lloyd	2011	-	142,090	-	-	-	**142,090**	-
	2010	-	130,000	-	-	-	**130,000**	-
Greg Short	2011	60,165	-	5,415	9,978	-	**75,558**	-
	2010	52,425	-	4,718	3,522	-	**60,665**	-
EXECUTIVES								
Justin Pettett	2011	329,808	-	15,192	-	19,802	**364,802**	5
	2010	165,132	132,000	14,863	-	24,342	**336,337**	7
Ryan Messer	2011	132,080	101,742	-	-	19,802	**253,624**	8
	2010	138,300	101,442	-	-	24,342	**264,084**	9
Sandra Gaffney	2011	151,376	-	13,624	-	3,408	**168,408**	2
	2010	140,400[2]	-	12,636	-	4,686	**157,722**	3
TOTAL	**2011**	**673,429**	**243,832**	**34,231**	**9,978**	**43,012**	**1,004,482**	
	2010	**496,257**	**363,442**	**32,217**	**3,522**	**53,370**	**948,808**	

1 Total Directors' remuneration of $836,074 (2010: $791,086) includes $786,492 (2010: $738,880) which was paid in cash or cash equivalents and an amount of $39,604 (2010: $52,206) which is attributable to the expensing of rights granted pursuant to the Pryme Energy Long Term Incentive Plan in accordance with Australian Accounting Standard AASB2 – Share-based payments. AASB2 requires securities to be expensed over the performance period of the security, from the date of the grant and despite the fact that the vesting conditions related to continuity of tenure are yet to be attained.

2 Includes a short term incentive bonus of $nil (2010: $11,336) paid as part of compensation

OPTIONS AND RIGHTS AS REMUNERATION

During the year ended 31 December 2011, no performance rights (RSUs for US residents which have similar value characteristics) were awarded as remuneration under the Pryme Energy Long Term Incentive Plan ("LTIP") due to the qualifying criteria not being satisfied. Details of performance rights (RSUs) provided as remuneration in the comparative prior year are as follows:

Directors' Report

2011	Date of Grant	Number of Rights held at 1 January 2011	Rights granted in current financial year	Rights vested in current financial year	Number of Rights held at 31 December 2011	Vesting Date	Fair Value per Right at Grant Date	Market Value per Right at Vesting Date
Justin Pettett	31 Dec 09	257,968	-	257,968	-	1 Jan 2011	$0.059	$0.07
	31 Dec 09	257,968	-	-	257,968	1 Jan 2012	$0.059	n/a
	31 Dec 10	436,893	-	-	436,893	1 Jan 2012	$0.034	n/a
	31 Dec 10	436,893	-	-	436,893	1 Jan 2013	$0.034	n/a
Total		**1,389,722**		**257,968**	**1,131,754**			
Ryan Messer	31 Dec 09	257,968	-	257,968	-	1 Jan 2011	$0.059	$0.07
	31 Dec 09	257,968	-	-	257,968	1 Jan 2012	$0.059	n/a
	31 Dec 10	436,893	-	-	436,893	1 Jan 2012	$0.034	n/a
	31 Dec 10	436,893	-	-	436,893	1 Jan 2013	$0.034	n/a
Total		**1,389,722**		**257,968**	**1,131,754**			
Sandra Gaffney	31 Dec 09	37,492	-	37,492	-	1 Jan 2011	$0.059	$0.07
	31 Dec 09	37,491	-	-	37,491	1 Jan 2012	$0.059	n/a
	31 Dec 10	91,715	-	-	91,715	1 Jan 2012	$0.034	n/a
	31 Dec 10	91,715	-	-	91,715	1 Jan 2013	$0.034	n/a
Total		**258,413**	**-**	**37,492**	**220,921**			

2010	Date of Grant	Number of Rights held at 1 January 2010	Rights granted in current financial year	Rights vested in current financial year	Number of Rights held at 31 December 2010	Date Rights vest	Fair Value per Right at Grant Date	Market Value per Right at Vesting Date
Justin Pettett	31 Dec 09	257,968	-	-	257,968	1 Jan 2011	$0.059	n/a
	31 Dec 09	257,968	-	-	257,968	1 Jan 2012	$0.059	n/a
	31 Dec 10	-	436,893	-	436,893	1 Jan 2012	$0.034	n/a
	31 Dec 10	-	436,893	-	436,893	1 Jan 2013	$0.034	n/a
Total		515,936	873,786	-	1,389,722			
Ryan Messer	31 Dec 09	257,968	-	-	257,968	1 Jan 2011	$0.059	n/a
	31 Dec 09	257,968	-	-	257,968	1 Jan 2012	$0.059	n/a
	31 Dec 10	-	436,893	-	436,893	1 Jan 2012	$0.034	n/a
	31 Dec 10	-	436,893	-	436,893	1 Jan 2013	$0.034	n/a
Total		515,936	873,786	-	1,389,722			
Sandra Gaffney	31 Dec 09	37,492	-	-	37,492	1 Jan 2011	$0.059	n/a
	31 Dec 09	37,491	-	-	37,491	1 Jan 2012	$0.059	n/a
	31 Dec 10	-	91,715	-	91,715	1 Jan 2012	$0.034	n/a
	31 Dec 10	-	91,715	-	91,715	1 Jan 2013	$0.034	n/a
Total		74,983	183,430	-	258,413			

Estimated Value Range of Awards

The maximum possible value of awards yet to vest to be disclosed under the Australian Corporations Act 2001 is not determinable as it is dependent on, and therefore fluctuates with, the share price of Pryme Energy Limited at a date that any award is exercised. An estimate of a maximum possible value of awards can be made using the highest share price during FY2011, which was $0.27 (FY 2010: $0.20) multiplied by the number of shares awarded for the scheme.

During the reporting period 553,428 performance rights and restricted stock units shown above vested on 1 January 2011 and converted to ordinary shares on a one-for-one basis on 4 January 2011.

As announced on 3 January 2012, 1,518,928 performance rights and restricted stock units shown above vested on 1 January 2012 and converted to ordinary shares on a one-for-one basis on 3 January 2012.

Directors' Report

SUMMARY OF KEY CONTRACTS TERMS

The key contract and other terms of the executives are set out below:

Contract Details	Justin Pettett – Chief Executive Officer (CEO) and Managing Director (MD)	Ryan Messer – Chief Operating Officer (COO)	Sandra Gaffney –Chief Financial Officer
Term	On-going	On-going	On-going
Termination notice period and payments	**Termination as per CEO Agreement:** **By Pryme** • For cause - 1 months' notice or salary in lieu (if convicted of any indictable criminal offence, termination shall be immediate). • For illness, injury or insanity - 9 months' notice or salary in lieu. • For convenience - 12 months' notice paid in lieu. • For redundancy - 12 months' notice + 1 months' salary for each completed year of service. **By the CEO** For convenience - 3 months' written notice. Immediately, with payment of annual and long service leave and 6 months' salary, if Pryme commits a serious or persistent breach of the Agreement. **Termination as per the MD Appointment Letter:** • Notice for termination as Director paid in lieu of notice in proportion to notice paid under the Agreement on termination as Chief Executive Officer. • No redundancy payment as Managing Director. **Annual Leave payment:** On termination, the CEO is entitled to payment in lieu of the annual leave owing to him. **Conditions to Payments** No payment is to be made where such payment is contrary to the *Corporations Act 2001* or Listing Rules of the Australian Securities Exchange (as applicable).	**Termination by Pryme** • For cause - 1 months' notice or salary in lieu (if convicted of any indictable criminal offence, termination shall be immediate). • For illness, injury or insanity - 9 months' notice or salary in lieu. • For convenience - 12 months' notice paid in lieu. • For redundancy - 12 months' notice + 1 months' salary for each completed year of service. **Termination by the COO:** • For convenience - 3 months' written notice. • Immediately, with payment of annual and long service leave and 6 months' salary, if Pryme commits a serious or persistent breach of the Agreement. **Annual Leave payment:** On termination, the COO is entitled to payment in lieu of the annual leave owing to him. **Conditions to Payments** No payment is to be made where such payment is contrary to the *Corporations Act 2001* or Listing Rules of the Australian Securities Exchange (as applicable).	**Termination by Pryme:** • For cause - 1 month's notice or salary in lieu (if convicted of any indictable criminal offence, termination shall be immediate, with no payment other than salary accrued up to date of termination). • For convenience - 3 months' written notice • For redundancy – 3 months written notice + 1 months' salary for each completed year of service. **Termination by the employee:** • For convenience - 3 months' written notice. • Immediately, with payment of annual and long service leave and 6 months' salary,if Pryme commits a serious or persistent breach of the Agreement **Annual Leave payment:** On termination, the employee is entitled to payment in lieu of the accrued annual leave owing to her. **Conditions to Payments** No payment is to be made where such payment is contrary to the *Corporations Act 2001* or Listing Rules of the Australian Securities Exchange (as applicable).

Directors' Report

13. Indemnification and Insurance of Officers and Auditors

Directors, executives and the company secretaries are indemnified by Pryme against any liability incurred in their capacity as an officer of Pryme or a related body corporate to the maximum extent permitted by law. Pryme has not paid any premiums in respect of any contract insuring the directors of Pryme against a liability for legal costs.

Ryan Messer, in his capacity as an employee and director of Pryme Oil and Gas Inc, is indemnified in circumstances where he is called on to provide a personal guarantee of commitments by the Company provided that the commitment of the Company or Subsidiary was incurred with the written approval of Pryme.

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, both PricewaterhouseCoopers and Moore Stephens, have the benefit of an indemnity to the extent they reasonably rely on information provided by Pryme which is false, misleading or incomplete. No amount has been paid under this indemnity during the financial year ending 31 December 2011 or to the date of this Report.

14. Non-Audit Services

Details of the amounts paid to the auditor of Pryme for audit and non-audit services provided during the year are set out in Note 6 to the financial statements. The directors are satisfied that:

(a) the non-audit services provided during the financial year by both PricewaterhouseCoopers and Moore Stephens as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and

(b) any non-audit services provided during the financial year by both PricewaterhouseCoopers and Moore Stephens as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

   i. PricewaterhouseCoopers and Moore Stephens' services have not involved partners or staff acting in a managerial or decision making capacity within Pryme or in the processing or originating of transactions; and

   ii. the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The auditor's independence declaration under section 307C of the Corporations Act set out in the Annual Report forms a part of the Annual Financial Report for the year ended 31 December 2011.

15. Proceedings on behalf of the Consolidated Group

During the year under review and in the interval between the end of the financial year and the date of the report, the Consolidated Group has made no application for leave under section 237 of the Corporations Act.

16. Corporate Governance

The directors aspire to maintain the highest possible standards of Corporate Governance. Pryme's Corporate Governance Statement is contained in the Annual Report.

This report is signed in accordance with a resolution of the directors.

Justin Pettett
Managing Director
Brisbane, Queensland
29 February 2012

Auditor's Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Pryme Energy Limited for the year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pryme Energy Limited and the entities it controlled during the period.

Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane
29 February 2012

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Financials

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated Group	
		2011	2010
Revenue	3	4,335,801	3,224,274
Production Costs		(1,080,502)	(934,963)
Gross Profit		3,255,299	2,289,311
Accounting and Audit Fees		(148,304)	(154,113)
Depreciation and amortisation expenses and write offs	3	(3,169,949)	(2,597,016)
Directors Remuneration	5	(542,660)	(375,438)
Directors Remuneration – Share/Option Plan	5	(49,581)	(52,207)
Professional Consulting Fees	5	(504,661)	(580,055)
Employee Benefits Expense		(390,774)	(688,168)
Travel and Accommodation Expenses		(258,839)	(247,198)
Other expenses		(502,470)	(504,089)
Gain/(Loss) on Sale of Assets		1,301	(291,244)
Finance Expenses		(348,453)	-
Share of net loss of associates		-	(733)
Loss before income tax		(2,659,091)	(3,200,950)
Income tax expense	4	-	-
Loss from continuing operations		**(2,659,091)**	**(3,200,950)**
Loss for the year from discontinued operations after tax		-	36,350
Loss for the year		**(2,659,091)**	**(3,164,600)**
Other Comprehensive Income			
Net gain/(loss) foreign currency translation reserve		89,247	(3,215,567)
Income tax related to comprehensive income		-	-
Total Comprehensive Loss for the year		**(2,569,844)**	**(6,380,167)**
(Loss) / profit attributable to members of the parent entity		**(2,569,844)**	**(6,380,167)**
Total Comprehensive Loss attributable to members of the parent entity		**(2,569,844)**	**(6,380,167)**
Basic earnings per share (cents per share)	7	(1.1)	(1.7)
Diluted earnings per share (cents per share)	7	(1.1)	(1.7)
From continuing operations			
Basic earnings per share (cents per share)	7	(1.1)	(1.7)
Diluted earnings per share (cents per share)	7	(1.1)	(1.7)
From discontinued operations			
Basic earnings per share (cents per share)	7	-	-
Diluted earnings per share (cents per share)	7	-	-

The above statement should be read in conjunction with the accompanying notes.

Financials (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	Consolidated Group	
		2011	2010
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	5,232,537	2,562,063
Trade and other receivables	9	612,953	617,347
Other current assets		56,968	73,578
TOTAL CURRENT ASSETS		**5,902,458**	**3,252,988**
NON-CURRENT ASSETS			
Investments accounted for using the equity method	10	-	5,075,331
Property, plant and equipment	13	589,932	722,330
Land		24,572	24,596
Working Interest	14	24,153,470	15,023,954
TOTAL NON-CURRENT ASSETS		**24,767,974**	**20,846,211**
TOTAL ASSETS		**30,670,432**	**24,099,199**
CURRENT LIABILITIES			
Trade and other payables	15	1,464,075	630,318
Borrowings	16	4,345,705	-
TOTAL CURRENT LIABILITIES		**5,809,780**	**630,318**
NON-CURRENT LIABILITIES			
Provisions		137,552	94,655
TOTAL NON-CURRENT LIABILITIES		**137,552**	**94,655**
TOTAL LIABILITIES		**5,947,332**	**724,973**
NET ASSETS		**24,723,100**	**23,374,226**
EQUITY			
Issued capital	17	43,817,369	39,918,989
Reserves		(5,332,066)	(5,441,651)
Accumulated losses		(13,762,203)	(11,103,112)
TOTAL EQUITY		**24,723,100**	**23,374,226**

The above statement should be read in conjunction with the accompanying notes.

Financials (cont.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2011

	Note	Ordinary Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Total
Consolidated Group						
Balance at 1 January 2010		36,399,647	(7,938,512)	(2,305,516)	22,539	26,178,158
Total Comprehensive for the year		**-**	**(3,164,600)**	**(3,215,567)**	**-**	**(6,380,167)**
Transactions with owners in the capacity as owners:						
Shares issued during the year		1,700,000	-	-	-	1,700,000
Rights issued during the year		2,000,513	-	-	-	2,000,513
Share capital raising cost		(181,171)	-	-	-	(181,171)
Long Term Incentive Plan rights issued during the year		-	-	-	53,371	53,371
Options issued during the year		-	-	-	3,522	3,522
Balance at 31 December 2010		**39,918,989**	**(11,103,112)**	**(5,521,083)**	**79,432**	**23,374,226**
Total Comprehensive Loss for the year		-	(2,659,091)	89,247	-	(2,569,844)
Transactions with owners in the capacity as owners:						
Shares issued during the year		4,028,771	-	-	-	4,028,771
Share capital raising cost		(163,043)	-	-	-	(163,043)
Long Term Incentive Plan Rights issued during the year		-	-	-	52,990	52,990
Transfer from options reserve to share capital		32,652	-	-	(32,652)	-
Balance at 31 December 2011		**43,817,369**	**(13,762,203)**	**(5,431,836)**	**99,770**	**24,723,100**

The above statement should be read in conjunction with the accompanying notes.

Financials (cont.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated Group	
		2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		4,026,932	2,415,666
Interest received		131,603	195,097
Payments to suppliers and employees		(3,115,571)	(2,873,041)
Net cash provided by (used in) operating activities	**22(a)**	**1,042,964**	**(262,278)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		62,905	-
Purchase of property, plant and equipment		(36,776)	(431,454)
Payment for working interest		(6,263,797)	(6,775,887)
Loans repaid by other entities		-	1,070,871
Net cash provided by (used in) investing activities		**(6,237,668)**	**(6,136,470)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares (net of capital raising costs)		3,865,728	3,519,342
Proceeds from borrowings		4,000,000	-
Net cash provided by (used in) financing activities		**7,865,728**	**3,519,342**
Net increase (decrease) in cash held		2,671,024	(2,879,406)
Cash at beginning of financial year		2,562,063	5,454,607
Effect of exchange rate movement		(550)	(13,138)
Cash at end of financial year	**8**	**5,232,537**	**2,562,063**

The above statement should be read in conjunction with the accompanying notes.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), Urgent Issues Group Interpretations and the Corporations Act 2001.

This financial report covers the consolidated financial statements and notes of Pryme Energy Limited and controlled entities ('the Company', 'Consolidated Group' or 'Group'). Pryme Energy Limited is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. The financial statements and notes also comply with International Financial Reporting Standards.

Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Consistent with other oil and gas exploration companies, Pryme raises capital to fund its exploration activities as required. Accordingly, the financial report has been prepared on a going concern basis in the belief that the Company will realise its assets and settle its liabilities in the normal course of business and for at least the amounts stated in the financial report.

The ability of the Company to continue as a going concern and meets it's debts and commitments as they fall due is dependent upon the Company securing sufficient capital which may be in the form of (or some combination of) the following:

- Entering in to arrangements to farm out or sell existing projects/assets;
- Negotiating an extension of existing convertible note facilities;
- Establishment of new debt funding; and/or
- Raising equity from new/existing shareholders

The directors believe that the Company will be successful in securing sufficient capital and, accordingly, have prepared the report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 31 December 2011. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity over which Pryme Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 11 to the financial statements.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Jointly Controlled Entities

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using the proportional consolidation method whereby the Group's proportionate interest in the assets, liabilities, revenues and expenses of jointly controlled entities are recognised within each applicable line item of the financial statements.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The share of jointly controlled entities' results is recognised in the Group's financial statements from the date that joint control commences until the date at which it ceases.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of offset exists and it is intended net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of setoff exists, the deferred tax assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liabilities will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Office Equipment	25%
Drilling Rig Equipment	10%
Other Drilling Equipment	20%

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

Each area of interest is limited to a size related to a known or probable petroleum resource. Currently the Group operates in multiple areas of interest in the State of Louisiana and is generally defined by lease boundaries.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining equipment and facilities, waste removal, and rehabilitation of the site in accordance with clauses of the petroleum permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the period of the lease.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are presented in profit or loss within other income or other expenses in the period in which they arise.

v. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates.

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are shown in the Statement of Comprehensive Income and disclosed in the group's foreign currency translation reserve in the Statement of Financial Position.

(j) Employee Benefits

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(k) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

(l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(n) Revenue and Other Income

The group uses the sales method to account for sales of crude oil and natural gas revenues. Under this method, revenues are recognised based on volumes of oil and gas sold to purchasers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(q) EPS

i. Basic earnings per share

Basic earnings per share is determined by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

ii. Diluted earnings per share

Diluted earnings per share adjusts the amounts used in determination of basic earnings per share to take in to account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors.

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits and accrued expenses. Segment assets and liabilities do not include deferred income taxes.

(s) Trade Receivables

All trade and other debtors are recognised at fair value. Collectability is reviewed on an ongoing basis. A provision for doubtful debts is made where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. The amount of any provision is recognised in the income statement. Trade receivables are due for settlement no more than 30-60 days from the date of recognition.

(t) Trade Payables

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(u) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of acquisition as part of the purchase consideration.

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Exploration expenditure for each area of interest is carried forward as an asset based on the provisions in AASB 6 Exploration for and Evaluation of Mineral Resources. Exploration expenditure which fails to meet at least one of the conditions outlined in AASB 6 is written off. Expenditure is not carried forward in respect of any area of interest unless the Company's rights of tenure to that area of interest are current. The ultimate recoupment of exploration and evaluation expenditure is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area.

Provision for Impairment of Receivables

During the year the provision for doubtful debts previously raised was adjusted only by an amount received from the joint venture partner that had entered bankruptcy in the United States in the prior financial year.

Restoration Obligations

The Company estimates the future removal costs of production facilities and wells at the time of installation of the assets. In most instances, restoration occurs many years in to the future. This requires assumptions regarding removal date, future environmental legislation, methodology for estimating costs and specific discount rates to determine the present value of these cash flows.

Reserves Estimates

Estimates of proven and probable oil and gas reserves require interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reserves can impact asset carrying values, provisions for restoration and the recognition of any deferred tax assets due to changes in expected future cash flows. Reserve estimates are prepared based on standard definitions set out by the Society of Petroleum Engineers, Petroleum Resources Management System, 2007 for all reserves classifications by an independent and appropriately qualified reserve engineer.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 2 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will have no impact on the Group's accounting for financial assets as Group only has debt assets.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measuremen and have not been changed. The group has not yet decided when to adopt AASB 9.

AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Pryme Energy Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the Group.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB made amendments to AASB 7 *Financial Instruments: Disclosures* which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. While the group does not expect the new standard to have any impact on its approach to accounting for joint arrangements, it has yet to perform a detailed analysis of the new standards.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 31 December 2013.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 January 2013.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively)

In December 2011, the IASB made amendments to the application guidance in IAS 32 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The group intends to apply the new rules for the first time in the financial year commencing 1 January 2013.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 3 REVENUE AND EXPENDITURE FOR YEAR

REVENUE

	Consolidated Group 2011 $	Consolidated Group 2010 $
Sales Revenue		
Oil and gas revenue	4,068,760	2,750,268
Less: Oil and gas revenue discontinued operations	-	(46,657)
Total Sales Revenue	4,068,760	2,703,611
Other Revenue		
Operator Fees	104,119	508,166
Less provision for doubtful debt	28,571	(189,531)
Interest	134,351	202,028
Total Other Revenue	267,041	520,663
Total Sales Revenue and Other Revenue	4,335,801	3,224,274

EXPENDITURE

	Consolidated Group 2011 $	Consolidated Group 2010 $
Production costs – oil and gas	1,080,502	945,269
Less: Production costs discontinued operations	-	(10,306)
	1,080,502	934,963
Depreciation and amortisation	105,425	89,625
Depletion of working interest	3,064,524	1,690,697
Capitalised exploration expenditure write-off	-	816,694
Total Depreciation, amortisation and write-offs	3,169,949	2,597,016

Amounts disclosed as revenue and production costs from discontinued operations for 2010 relate to an assignment by the Group of a 5% working interest and its overriding royalty interests in the Raven natural gas project to Amelia Resources LLC in settlement of outstanding claims. The effective date of the assignment is 30 September 2010 after which time the Group retains a 35% working interest (26.25% Net Revenue Interest) in Raven.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 4 INCOME TAX EXPENSE

	Consolidated Group	
	2011	2010
	$	$
a. The prima facie tax on loss before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on loss before income tax at 30% (2010: 30%)	(797,727)	(949,380)
Add:		
Non allowable deduction	9,475	5,599
Share options expensed during the year	15,897	17,068
Less:		
Tax deductible equity raising costs	(85,866)	(163,107)
	(858,221)	(1,089,820)
Current year tax losses not recognised	858,221	1,089,820
Income tax expense	-	-
b. Net deferred tax assets not brought to account:		
Unused tax losses for which no deferred tax asset has been recognised	10,649,385	7,782,722
Potential tax benefit @ 30%	3,194,815	2,334,817

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

a. **Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:**

Key Management Person	**Position**
Executive Directors	
Justin Pettett	Managing Director and Chief Executive Officer since 1 December 2005
Ryan Messer	Chief Operations Officer since 1 December 2005
Non Executive Directors	
George Lloyd	Appointed Director and Chairman on 29 January 2008
Greg Short	Appointed Director on 21 January 2010

Key management personnel remuneration is included in the Remuneration Report section of the Directors' Report.

b. **Related Party Transactions – Key Management Personnel**

Management consulting fees totalling $nil (2010: $132,000) were paid to an entity of which J Pettett is a beneficial shareholder and director and amounts totalling $64,886 (2010:$ 68,854) were paid to associates of Mr J Pettett for accounting and graphic design related services.

Management consulting fees totalling $101,742 (2010: $101,442) were paid to an entity of which Mr R Messer is a beneficial shareholder and director and amounts totalling $43,720 (2010: $49,525) were paid to an associate of Mr Messer for administration related services.

Directorship fees totalling $142,090 (2010: $130,000) were paid to an entity of which Mr G Lloyd is a beneficiary.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

c. **Equity Instrument Disclosures**

Details of options and performance rights provided as remuneration together with qualifying and vesting terms and conditions are provided in the Remuneration Report section of the Directors' Report.

(i) Options

2011	Balance 1.1.2011	Granted	Exercised	Balance 31.12.2011	Vested during the year	Vested and Exercisable 31.12.2011	Total Unexercisable 31.12.2011
Greg Short	500,000	-	-	500,000	500,000	500,000	-
Total	500,000	-	-	500,000	-	500,000	-

2010	Balance 1.1.2010	Granted	Exercised	Balance 31.12.2010	Vested during the year	Vested and Exercisable 31.12.2010	Total Unexercisable 31.12.2010
Greg Short	-	500,000	-	500,000	-	-	500,000
Total	-	500,000	-	500,000	-	-	500,000

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(ii) Performance Rights/Restricted Stock Units

2011	Balance 1.1.2011	Granted as Compensation	Vested	Balance 31.12.2011	Total Unvested 31.12.2011
Justin Pettett	1,389,722	-	257,968	1,131,754	1,131,754
Ryan Messer	1,389,722	-	257,968	1,131,754	1,131,754
Total	2,779,444	-	515,936	2,263,508	2,263,508

2010	Balance 1.1.2010	Granted as Compensation	Vested	Balance 31.12.2010	Total Unvested 31.12.2010
Justin Pettett	515,936	873,786	-	1,389,722	1,389,722
Ryan Messer	515,936	873,786	-	1,389,722	1,389,722
Total	1,031,872	1,747,572	-	2,779,444	2,779,444

d. Shareholdings

The number of shares held during the year by the Directors, including their personally related parties are as follows:

2011	Balance 1.1.2011	Rights/ Restricted Stock Units Issued	Net Change Other *	Balance 31.12.2011
Justin Pettett	4,500,000	257,968	679,711	5,437,679
Ryan Messer	2,887,791	257,968	192,000	3,337,759
George Lloyd	3,665,000	-	752,144	4,417,144
Greg Short	60,000	-	150,000	210,000
Total	11,112,791	515,936	1,773,855	13,402,582

2010	Balance 1.1.2010	Rights/ Restricted Stock Units Issued	Net Change Other **	Balance 31.12.2010
Justin Pettett	3,661,000	-	839,000	4,500,000
Ryan Messer	2,506,925	-	380,866	2,887,791
George Lloyd	3,080,000	-	585,000	3,665,000
Greg Short	-	-	60,000	60,000
Total	9,247,925	-	1,864,866	11,112,791

* Net Change Other in relation to the 2011 year refers to shares purchased or sold during the financial year and also includes shares acquired pursuant to the non-renounceable rights issue announced to shareholders on 15 June 2011.

** Net Change Other in relation to the 2010 year refers to shares purchased or sold during the financial year and also includes shares acquired pursuant to the non-renounceable rights issue announced to shareholders on 31 August 2010.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 6 AUDITORS' REMUNERATION

	Consolidated Group 2011 $	Consolidated Group 2010 $
Remuneration of the auditor of the Group for:		
PwC		
— auditing or reviewing the financial report	80,000	-
— taxation services	5,000	-
	85,000	-
Non PwC Audit Firms		
— auditing or reviewing the financial report	5,022	77,014
— taxation services	2,158	5,460
	7,180	82,474

NOTE 7 EARNINGS PER SHARE

	Consolidated Group 2011 $	Consolidated Group 2010 $
a. Reconciliation of earnings to profit or loss		
Loss	(2,659,091)	(3,164,600)
Earnings used to calculate basic EPS	(2,659,091)	(3,164,600)
	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	238,519,032	187,706,452
Weighted average number of options outstanding	500,000	473,973
Weighted average number of rights outstanding	2,484,429	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	241,503,461	188,180,425

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 8 CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2011	**2010**
	$	**$**
Cash at bank and in hand	884,620	527,114
Short-term bank deposits	4,347,917	2,034,949
	5,232,537	**2,562,063**

The effective interest rate on short-term bank deposits was 4.25% (2010: 4.4%).

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	5,232,537	2,562,063
	5,232,537	2,562,063

NOTE 9 TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2011	**2010**
	$	**$**
CURRENT		
– Trade receivables	587,041	602,345
– Provision for impairment of receivables	(104,937)	(134,569)
	482,104	467,776
Other receivables:		
– GST receivable	7,987	26,576
– Operating bond	122,862	122,995
	612,953	617,347

A reconciliation of the movement in the provision for impairment of receivables is shown below:

	2011	**2010**
	$	**$**
Opening Balance	134,569	-
– additional provision	-	134,569
– reversal of prior year provision	(28,571)	-
– foreign currency movement	(1,061)	-
Closing Balance	104,937	134,569

Impaired assets are provided for in full. There are no other balances within trade and other receivables that contain assets that are impaired or are past due.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Note	Consolidated Group	
		2011 $	2010 $
Associated companies	10a	-	5,075,331

Interests are held in the following associated unincorporated companies

Name	Principal Activities	Country of Incorporation	Ownership Interest		Carry amount of investment	
			2011 %	2010 %	2011 $	2010 $
Unlisted:						
Turner Bayou, LLC*	Oil and Gas Exploration and Drilling	United States of America	-	80.80	-	5,075,331

*The Company does not control of Turner Bayou LLC as percentage of voting power is not in proportion to ownership.

During the year, the Company withdrew as a member of Turner Bayou LLC under an agreement which assigned the seismic data previously held by Turner Bayou LLC directly to Pryme Oil and Gas LLC in proportion to the ownership interest held by the Company. Accordingly seismic data assets previously owned by virtue of membership of Turner Bayou LLC are now included in working interests (Note 14).

During the 2010 financial year, the Company withdrew as member of Avoyelles Energy LLC under an agreement which assigned the leasehold interests previously held by Avoyelles Energy LLC directly to Pryme Oil and Gas LLC in proportion to the working interest held by the Company. Accordingly the leasehold assets, previously owned by virtue of membership of Avoyelles Energy LLC, are now included in working interests (Note 14).

		Consolidated Group	
		2011 $	2010 $
a.	**Movements During the Year in Equity Accounted Investment in Associated Companies**		
	Balance at beginning of the financial year	5,075,331	8,623,033
Add:	Share of associated company's loss after income tax	-	(733)
Less:	Transfer to working interest	(5,069,843)	(2,501,767)
	Adjustment for foreign currency movement	(5,488)	(1,045,202)
	Balance at end of the financial year	-	5,075,331
b.	**Equity accounted profit/(loss) of associates are broken down as follows:**		
	Share of associate's loss before income tax expense	-	(733)
	Share of associate's income tax expense	-	-
	Share of associate's loss after income tax	-	(733)

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

		Consolidated Group	
		2011 $	2010 $
c.	**Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates**		
	Current assets	-	2,232
	Non-current assets	-	5,604,358
	Total assets	-	5,606,590
	Current liabilities	-	29
	Non-current liabilities	-	-
	Total liabilities	-	29
	Net assets	-	5,606,561
	Revenues	-	-
	Loss after income tax of associates	-	701

d. **The reporting date of the associated companies is 31 December.**

NOTE 11 CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest (%)*	
		2011	2010
Subsidiaries of Pryme Energy Limited:			
- Pryme Oil and Gas Inc	US	100%	100%
- Pryme Energy LLC	US	100%	100%
- Trident Minerals LLC	US	100%	100%
- Pryme Royalty Holdings LLC	US	100%	100%
- Pryme Mineral Holdings LLC	US	100%	100%
- Pryme Oil and Gas LLC	US	100%	100%

** Percentage of voting power is in proportion to ownership*

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 12: INTERESTS IN JOINTLY CONTROLLED ENTITIES

Entities included below are subject to joint control as a result of governing contractual arrangements.

	Country of Incorporation	Principal Activity	Reporting Date	Ownership Interest (%)	
				2011	2010
Pryme Lake Exploration LLC	US	Oil Exploration	31 Dec	50%	50%

	In Aggregate		Group Share	
	2011	2010	2011	2010
	$	$	$	$
Net Assets of Jointly Controlled Entities				
Current assets	461,831	97,792	230,916	48,896
Non-current assets	3,913,443	4,453,445	1,956,722	2,226,723
Current liabilities	37,319	50,912	18,659	25,456
Non-current liabilities	58,340	-	29,170	-
Net assets	4,279,615	4,500,325	2,139,809	2,250,163
Revenues	1,229,600	801,458	614,800	400,729
Profit/(Loss) after income tax	216,503	575,094	108,251	287,547

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2011	2010
	$	$
PLANT AND EQUIPMENT		
Office Equipment:		
At cost	68,878	59,770
Accumulated depreciation	(44,872)	(32,990)
	24,006	26,780
Drilling Equipment:		
At cost	592,450	598,729
Accumulated depreciation	(115,308)	(59,275)
	477,142	539,454
Other Equipment:		
At cost	114,313	174,413
Accumulated depreciation	(25,529)	(18,317)
	88,784	156,096
TOTAL		
At cost	775,641	832,912
Accumulated depreciation	(185,709)	(110,582)
	589,932	722,330

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office Equipment $	Drilling Equipment $	Other Equipment $	Total $
Consolidated Group:				
Balance at 1 January 2010	24,466	418,435	-	442,901
Foreign currency movement	376	(45,309)	112	(44,821)
Additions	13,971	225,603	174,301	413,875
Disposals	-	-	-	-
Depreciation expense	(12,033)	(59,275)	(18,317)	(89,625)
Balance at 31 December 2010	26,780	539,454	156,096	722,330
Foreign currency movement	(143)	(1,535)	(663)	(2,341)
Additions	10,898	-	26,131	37,029
Disposals	-	(225)	(61,436)	(61,661)
Depreciation expense	(13,529)	(60,552)	(31,344)	(105,425)
Balance at 31 December 2011	24,006	477,142	88,784	589,932

NOTE 14 WORKING INTEREST

	2011 $	2010 $
Exploration expenditure capitalised		
- Exploration and evaluation phases	6,941,381	8,021,574
- Less exploration costs written off	-	(695,512)
Production phase	24,024,063	11,446,290
Accumulated depletion	(6,811,974)	(3,748,398)
Intangible exploration costs capitalised*	-	227,842
Less intangible costs written off	-	(227,842)
Total Exploration Expenditure	24,153,470	15,023,954

*Intangible assets comprise the acquisition costs of seismic data. Recoverability of the carrying amount of these costs is dependent on either the successful exploration in the area of interest to which the seismic data relates or subsequent sale of the asset to third parties.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 15 TRADE AND OTHER PAYABLES

	Consolidated Group	
	2011 $	2010 $
Other payables and accrued expenses	1,464,075	630,318

NOTE 16 BORROWINGS

Convertible Notes	4,345,705	-

As announced to the ASX on 14 March 2011 and ratified by shareholders at the Annual General Meeting on the 18th April 2011, the Company completed a funding agreement with its major shareholder, Belmont Park Investments Pty Ltd (BPI), to raise $4.0 million through an unsecured convertible note facility. The terms of the facility provide for repayment on the date falling 12 months after initial drawdown with interest payable at a rate of 9.381% per annum and a facility fee equal to 2.5% of the principal. The principal, interest and facility fee is convertible into ordinary shares of the Company at BPI's election at any time from initial drawdown to maturity at a price of $0.30 per share in the Company (with such issue price being adjusted in the event that the Company reorganises its share capital or undertakes a rights issue).

NOTE 17 ISSUED CAPITAL

	Consolidated Group	
	2011 $	2010 $
257,841,350 (2010: 225,057,754) fully paid ordinary shares	46,171,282	42,109,858
Capital raising costs	(2,353,913)	(2,190,869)
	43,817,369	39,918,989

a.	Ordinary shares	No. of Shares	No. of Shares
	At the beginning of reporting period	225,057,754	178,801,337
	Shares issued during the year		
	- 6 September 2010	-	21,250,000
	- 17 November 2010	-	9,789,488
	- 6 December 2010	-	6,619,051
	- 9 December 2010	-	8,597,878
	- 4 January 2011	553,428	-
	- 21 July 2011	7,880,720	-
	- 14 August 2011	22,149,448	-
	- 24 August 2011	2,200,000	-
	At reporting date	257,841,350	225,057,754

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

On 1 January 2011 553,428 performance rights and restricted stock units shown above vested and converted to ordinary shares on a one-for-one basis on 4 January 2011.

On 15 June 2011 the company invited its shareholders to subscribe to a non-renounceable rights issue of 32,230,168 shares at an issue price of $0.125 per share on the basis of 1 share for every 7 fully paid ordinary shares held. Shareholders subscribed for 7,880,720 shares which were allotted on 21 July 2011. The Company undertook a placement of the 24,349,448 shortfall shares and allotted 22,149,448 shares on 14 August and the 2,200,000 balance of the shortfall shares on 24 August 2011.

Capital risk management

The group's objectives when managing capital are to safeguard their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

Consistently with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet (including non-controlling interests) plus net debt.

b. Options	**Consolidated Group**	
	Number of Options 2011	**Number of Options 2010**
15 cent options		
– At the beginning of the period	500,000	-
– Add: 15 cent options issued		
– 19 April 2010	-	500,000
Total 15 cent options	**500,000**	**500,000**

NOTE 18 RESERVES

a. Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

b. Option Reserve

The option reserve records items recognised as expenses on valuation of directors share rights/options under the Pryme Long Term Incentive Plan.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 19 CAPITAL AND LEASING COMMITMENTS

a. Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable — minimum lease payments		
— not later than 12 months	8,655	5,187
— between 12 months and 5 years	15,147	-
— Greater than 5 years	-	-
	23,802	5,187

b. Capital Expenditure Commitments contracted for

Expenditure on working interest	1,218,855	364,738
	1,218,855	364,738
Payable:		
— not later than 12 months	1,218,855	364,738
— between 12 months and 5 years	-	-
— greater than 5 years	-	-
	1,218,855	364,738

NOTE 20 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2011 (2010: Nil)

NOTE 21 SEGMENT REPORTING

Operating Segments — Geographical Segments

The Consolidated group comprises the following two operating segments defined geographically:

- Core operations comprising the exploration, development and production of oil and gas projects in the US; and
- Administrative operations undertaken in Australia to support the exploration, development and production of oil and gas projects in the US, which includes the recharging of such costs via management fees.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

	Australia	United States of America	Eliminations	Total
2011	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue	-	4,068,759	-	4,068,759
Intercompany Management Fee	1,458,547	-	(1,458,547)	-
Other	134,346	132,695	-	267,041
Expenditure				
Production Expenses	-	(1,080,502)	-	(1,080,502)
Depletion, depreciation and exploration expenditure written off	(6,294)	(3,163,655)	-	(3,169,949)
Employee Related Expenses	(749,034)	(233,982)	-	(983,016)
Intercompany Management Fee	-	(1,458,547)	1,458,547	-
Other	(1,067,740)	(693,684)	-	(1,761,424)
Segment result	**(230,175)**	**(2,428,916)**	**-**	**(2,659,091)**
Assets	47,312,117	26,284,781	(42,926,466)	30,670,432
Liabilities	4,490,600	44,383,100	(42,926,368)	5,947,332

	Australia	United States of America	Eliminations	Total
2010	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue	-	2,750,268	-	2,750,268
Intercompany Management Fee	1,486,379	-	(1,486,379)	-
Other	134,800	385,863	-	520,663
Expenditure				
Production Expenses	-	(945,269)	-	(945,269)
Depletion, depreciation and exploration expenditure written off	(4,685)	(2,592,331)	-	(2,597,016)
Employee Related Expenses	(234,992)	(453,176)	-	(688,168)
Intercompany Management Fee	-	(1,486,379)	1,486,379	-
Other	(1,084,642)	(1,120,436)	-	(2,205,078)
Segment result	**296,860**	**(3,461,460)**	**-**	**(3,164,600)**
Assets	39,215,527	21,911,737	(37,122,720)	24,004,544
Liabilities	82,553	37,670,387	(37,122,622)	630,318

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 22 CASH FLOW INFORMATION

		Consolidated Group	
		2011 $	2010 $
a.	**Reconciliation of Cash Flow from Operations with Loss after Income Tax**		
	Loss after income tax	(2,659,091)	(3,164,600)
	Non-cash flows		
	Depreciation, depletion and amortisation	3,169,949	1,780,322
	Share options expensed	52,990	56,893
	Write-off of capitalised expenditure	-	816,694
	(Gain)/Loss on sale of assets	(1,301)	291,244
	Movement in foreign currency	42,465	11,111
	Interest Expense accrued	345,705	-
	Share of associated companies net loss after income tax and dividends	-	733
	Changes in assets and liabilities		
	(Increase)/decrease in trade and term receivables	21,015	(29,507)
	(Increase)/decrease in prepayments	(8,042)	(24,401)
	Increase/(decrease) in trade payables and accruals	79,274	(767)
	Cashflow from (used in) operations	1,042,964	(262,278)

b. Credit Standby Arrangements with Banks

There are no credit or standby arrangements with financiers as at 31 December 2011 (2010: Nil)

NOTE 23 EVENTS AFTER THE BALANCE SHEET DATE

Other than the matter discussed below, in the opinion of the directors, there has not arisen in the interval between the end of the financial year and the date of the report any matter or circumstance that has significantly affected, or may significantly affect the Consolidated Group's operations, results or the state of affairs in future financial years:

- As announced to the ASX on 27 February 2012, the Company successfully negotiated the sale of its interest in the Catahoula Lake project in LaSalle, Rapides and Grant parishes, Louisiana to the Sanchez Oil and Gas Group for a total sales price of US$1.625m.

NOTE 24 RELATED PARTY TRANSACTIONS

	Note	Consolidated Group 2011 $	2010 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.			
Transactions with related parties:			
Key Management Personnel	5(b)	352,438	481,821

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 25 FINANCIAL RISK MANAGEMENT

a. **Financial Risk Management Policies**

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries and leases.

i. **Treasury Risk Management**

Senior executives of the group regularly analyse financial risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The executive's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the Board on a regular basis.

ii. **Financial Risk Exposures and Management**

The main risks the group is exposed to through its financial instruments are foreign currency risk, liquidity risk, credit risk and price risk.

Interest Rate Risk

There is no exposure to interest rate risk as the interest rate on the debt owing is fixed.

Foreign Currency Risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The group is also exposed to fluctuations in foreign currencies arising from the loans advanced by the Australian based parent entity to its United States based subsidiaries. Foreign currency gains/losses are recorded by the subsidiaries and eliminated on consolidation via the foreign currency translation reserve.

Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds from capital raising are maintained for future expenditure on working interest.

Credit Risk

The maximum exposure to credit risk is the carrying amount of receivables, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk is managed on a group basis. It arises from exposures to customers as well as through deposits with financial institutions.

The group manages credit risk by actively assessing the rating quality and liquidity of counter parties including:

— only utilising banks and financial institutions with an 'A' rating;

— all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under arrangements entered into by the consolidated group.

Price Risk

The group is exposed to commodity price risk for oil and gas as determined by the world market prices which fluctuate based on demand and supply. These prices are regularly monitored.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

b. Financial Instruments composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period and maturity, as well as management's expectations of the settlement period for all other financial instruments. As such amounts may not reconcile to the balance sheet.

			Fixed Interest Rate			
2011	**Average Interest Rate**	**Variable Interest Rate $**	**Less than 1 year $**	**1 to 5 years $**	**Non Interest Bearing $**	**Total $**
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	4.25%	5,232,537	-	-	-	5,232,537
Receivables	-	-	-	-	612,953	612,953
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(1,464,075)	(1,464,075)
Borrowings	-	-	(4,345,705)	-	-	(4,345,705)
Total		5,232,537	(4,345,705)	-	(851,122)	35,710

			Fixed Interest Rate			
2010	**Average Interest Rate**	**Variable Interest Rate $**	**Less than 1 year $**	**1 to 5 years $**	**Non Interest Bearing $**	**Total $**
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	4.4%	2,562,063	-	-	-	2,562,063
Receivables	-	-	-	-	617,347	617,347
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(630,318)	(630,318)
Total		2,562,063	-	-	(12,971)	2,549,092

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

c. Net Fair Values

The net fair values of:

- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value. Where the loan is repayable within one year the cashflows are undiscounted and approximate fair value.
- Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps.

Financial assets where the carrying amount exceeds net fair values have not been written down as the consolidated group intends to hold these assets to maturity.

d. Sensitivity Analysis

Interest Rate Risk, Foreign Currency Risk and Price Risk

The group has performed sensitivity analysis relating to its exposure to price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Price Risk Sensitivity Analysis

At 31 December 2011, the effect on profit and equity as a result of changes in the price risk, with all other variables remaining constant would be as follows:

	Consolidated Group	
	2011 **$**	**2010** **$**
Change in profit		
— Increase in oil/gas price by 10%	393,570	224,619
— Decrease in oil/gas price by10%	(393,570)	(224,619)

The above price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 26 PARENT INFORMATION

The following information has been extracted from the books and records of the parent, Pryme Energy Limited, and has been prepared in accordance with Accounting Standards.

STATEMENT OF COMPREHENSIVE INCOME

	Parent Entity	
	2011 $	2010 $
Total (Loss) / Profit	(230,175)	296,860
Total Comprehensive Income	(230,175)	296,860

STATEMENT OF FINANCIAL POSITION

	2011 $	2010 $
ASSETS		
Current Assets	4,374,125	2,080,613
Non Current Assets	42,937,992	37,134,914
TOTAL ASSETS	47,312,117	39,215,527
LIABILITIES		
Current Liabilities	4,490,600	82,553
TOTAL LIABILITIES	4,490,600	82,553
EQUITY		
Issued capital	43,817,369	39,918,989
Reserves	99,769	79,432
Accumulated losses	(1,095,621)	(865,447)
TOTAL EQUITY	42,821,517	39,132,974

The net assets of the parent entity as at 31 December 2011 includes a related party loan receivable from the US subsidiary of $42,926,467. Recoverability of this account has been reviewed and is supported by the Group's estimated reserves as prepared in accordance with Note 1 of these financial statements.

NOTE 27 COMPANY DETAILS

The registered office and principal place of business of the company is:

Pryme Energy Limited
Level 7, 320 Adelaide Street
Brisbane QLD 4000

The principal place of business of the US subsidiaries is:

Pryme Oil and Gas Inc
1001 Texas Ave, Suite 1400 Houston
Texas 77002, United States of America

Directors' Declaration

1. In the opinion of the Directors of Pryme Energy Limited (Pryme):

   (a) the Financial Statements and Notes as set out on pages 29 to 60 are in accordance with the Corporations Act 2001, including:

      i. complying with Accounting Standards and Corporations Regulations 2001; and

      ii. giving a true and fair view of Pryme and the consolidated entity's financial position as at 31 December 2011 and of their performance as represented by the results of their operations and their cash flows for the year ended on that date; and

   b) the remuneration disclosures that are included on pages 20 to 26 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

   c) there are reasonable grounds to believe that Pryme will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 31 December 2011.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director

Brisbane
29th February 2012

Independent Auditor's Report

Independent auditor's report to the members of Pryme Energy Limited

Report on the financial report

We have audited the accompanying financial report of Pryme Energy Limited (the Company), which comprises the balance sheet as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Pryme Energy Limited and Controlled entities (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Independent Auditor's Report

pwc

Auditor's opinion

In our opinion:

(a) the financial report of Pryme Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 20 to 26 of the directors' report for the year ended 31 December 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Pryme Energy Limited for the year ended 31 December 2011 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Pryme Energy Limited for the year ended 31 December 2011 included on Pryme Energy Limited's web site. The Company's directors are responsible for the integrity of Pryme Energy Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
29 February 2012

Shareholder Information

AS AT 2 MARCH 2012

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

1. Substantial shareholders

The number of securities held by substantial shareholders and their associates are set out below:

Fully paid Ordinary Shares

Name	Number	%
Panorama Ridge Pty Ltd	39,183,206	17.41
Belmont Park Investments Pty Ltd	38,817,320	17.24

2. Number of security holders and securities on issue

Pryme has issued the following securities:

(a) 259,360,278 fully paid ordinary shares held by 1,414 shareholders;
(b) 528,608 unlisted Performance Rights held by two holders;
(c) 436,893 unlisted Restricted Stock Units held by one holder; and
(d) 2 Convertible Notes.

3. Voting rights

Ordinary shares

The voting rights attached to ordinary shares are that on a show of hands, every member present, in person or proxy, has one vote and upon a poll, each share shall have one vote.

Performance Rights and Restricted Stock Units

The holders of Performance Rights holders and Restricted Stock Units do not have any voting rights on the Performance Rights and Restricted Stock Units held by them.

4. Distribution of security holders

(a) Quoted securities

Category	Fully paid Ordinary shares		
	Holders	Shares	%
1 - 1,000	63	31,761	0.01
1,001 - 5,000	241	740,138	0.29
5,001 - 10,000	245	2,107,969	0.81
10,001 - 100,000	611	22,166,432	8.55
100,001 and over	254	234,313,978	90.34
Total	1,414	259,360,278	100.00

(b) Unquoted securities

Category	Performance Rights			Restricted Stock Units		
	Holders	Performance Rights	%	Holders	Restricted Stock Units	%
1 - 1,000	-	-	-	-	-	-
1,001 - 5,000	-	-	-	-	-	-
5,001 - 10,000	-	-	-	-	-	-
10,001 - 100,000	-	-	-	-	-	-
100,001 and over	2	528,608	100	1	436,893	100
Total	**2**	**528,608**	**100**	**1**	**436,893**	**100**

Shareholder Information

5. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 556. 10,639 shares comprise a marketable parcel at the Pryme closing share price of $0.047.

6. Unquoted securities

(a) Performance Rights

528,608 unlisted Performance Rights have been issued to two holders and remain unexercised. Details of holders of 20% or more of the Performance Rights are as follows:

Name	Number	%
Justin Pettett	436,893	82.65

(b) Restricted Stock Units

436,893 unlisted Restricted Stock Units have been issued to 1 holder and remain unexercised. Details of holders of 20% or more of the options are as follows:

Name	Number	%
Ryan Messer	436,893	100

7. On market buy-back

There is no current on market buy-back.

8. Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

	Name	No. of shares	%
1	Panorama Ridge Pty Ltd	38,459,206	14.83
2	Belmont Park Investments Pty Ltd	38,244,308	14.75
3	Anthony Rispoli	12,027,894	4.64
4	BT Portfolio Services Ltd <N J Family Shares 1A/C>	8,246,059	3.18
5	Peter Daniel Adams	7,207,700	2.78
6	Pettett Pty Ltd	6,132,540	2.36
7	Anglo Energy Company Inc	4,565,163	1.76
8	Jojeto Pty Ltd <Lloyd Super Fund A/C>	4,188,572	1.61
9	Forstu Pty Ltd <Barlow Superfund A/C>	4,108,635	1.58
10	Sourcerock Investments LLC	4,032,620	1.55
11	National Nominees Ltd	3,419,200	1.32
12	John Charles Vassallo + Janelle Kerrie Vassallo <Vassallo Family Superfund A/C>	3,027,748	1.17
13	Finance Associates Pty Ltd <Super Fund A/C>	3,018,000	1.16
14	Big Art Investments Pty Ltd	2,837,636	1.09
15	Citicorp Nominees Ltd	2,805,422	1.08
16	BT Portfolio Services Ltd <Twin Pines BTML A/C>	2,788,500	1.08
17	JP Morgan Nominees Australia Limited	1,767,549	0.68
18	Sandra Gaffney	1,736,645	0.67
19	Ian Williams	1,700,000	0.66
20	James Stewart	1,650,000	0.64
		151,963,397	58.59

Corporate Directory

Directors
Mr George Lloyd (Chairman)
Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Executive Director)
Mr Greg Short (Non-Executive Director)

Chief Financial Officer
Sandra Gaffney

Company Secretary
Ms Swapna Keskar

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BRISBANE Qld 4000

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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

Notes

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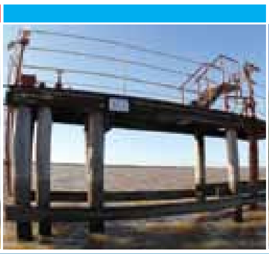

pryme energy

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