Appendix 4E
Preliminary Final Report
Results for Announcement to the Market

1. Company details and reporting period

Name of Entity and ABN	Pryme Oil and Gas Limited (ABN 75 117 387 354) and its subsidiaries, Pryme Oil and Gas Inc Pryme Energy, Inc (Consolidated Group)
Reporting Period	12 months to 31 December 2007
Previous Corresponding Period	13 months to 31 December 2006

2. Results for Announcement to the Market

	Up/Down	% Change	Year ended 31 December 2007 A$
Revenue from ordinary activities	Up	61	1,698,296
Profit/(loss) after tax attributable to the members	Up	64	(3,361,971)
Net Profit/(loss) for the period attributable to members	Up	64	(3,361,971)

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Please refer to paragraph 14 (below)

Dividends (Distribution)	Amount per security	Franked amount per security
Final Dividend	NIL & Not Applicable	
Interim Dividend		
Previous corresponding period		
Record date for determining entitlements for the dividend		

3. Income statement with notes to the statement
Refer to page 19 of the 2007 Financial Statements and accompanying notes.

4. Balance sheet with notes to the statement
Refer to page 20 of the 2007 Financial Statements and accompanying notes.

5. Statement of cash flows with notes to the statement
Refer to page 22 of the 2007 Financial Statements and accompanying notes.

6. Dividends
No dividends was paid, recommended for payment nor declared during the year in review.

7. Dividend/Distribution Reinvestment Plan (DRP)
The Consolidated Group does not have in operation a DRP.

8. Statement of retained earnings
Refer to page 21 of the 2007 Financial Statements.

9. Net Tangible assets (NTA) per security

	2007 A$	2006 A$
NTA per security	0.21	0.22

10. Entities over which control has been gained or lost during the period
Refer to page 34 of the 2007 Financial Statements

11. Associates and joint venture entities
Refer to page 33 of the 2007 Financial Statements

12. Other significant information
Not applicable.

13. Accounting standards used for foreign entities
Not applicable.

14. Commentary on results for the period
The accumulated loss of $3,361,971 is a result of the increased exploratory phase of Pryme's projects which is typical in such an active company during its early life. Whilst the loss is a 64% increase from the 2006 year, revenues have also increased by 61% commensurately to absorb the increase in costs. The results are expected to improve throughout 2008 as our key projects make the transition from exploration to production and eventually development.

As was the case in 2006, in accordance with the Accounting Standards, the costs of the equity (options and rights) issued to key management personnel greatly attributed to the accumulated loss. This remuneration is performance based; if such hurdles are not achieved then all entitlements to ordinary shares lapse and the necessary reversals in the financial statements will be made.

15. Status of Audit
The 2007 Financial Statements have been audited. The Independent Auditor's Report is set out on pages 41 - 42 of the 2007 Financial Statements

16. Dispute or qualifications if not yet audited
Not applicable

17. Dispute or qualifications if audited
Not applicable

Justin Pettett
Managing Director

29 February 2008

PRYME OIL AND GAS LIMITED
AND CONTROLLED ENTITIES

ABN: 75 117 387 354

Annual Financial Report For The Year Ended
31 December 2007

DIRECTORS' REPORT

In accordance with a resolution of directors, the directors present their Report together with the Financial Report of Pryme Oil and Gas Limited (Pryme) and its wholly owned subsidiaries (together referred to as the Consolidated Group) for the financial year ended 31 December 2007 and the Independent Audit Report thereon. The comparative figures described therein are for the period 1 December 2005 (being the date of incorporation of Pryme) to 31 December 2006.

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 25 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, and a member of the Advisory Board of Resource Capital Funds LLP, a US-based private equity fund with approximately US$1 billion funds under management, which invests in and provides development capital to minerals projects worldwide.

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

- Ausenco Limited (Non-Executive Director);
- Goldlink IncomePlus Limited (Non-Executive Director and corporate advisor since December 2007); and
- Equatorial Mining Limited (retired February 2006).

(b) John Dickinson – Vice Chairman
Independent Non–Executive Director *(*Appointed 1 December 2005)

Mr Dickinson graduated from the Tulane University School of Business and has 33 years experience in energy sector drilling, completions, production operations and project finance, primarily in the areas of oil, natural gas and coal bed methane resource development, gas gathering, gas compression, gas transmission and project finance of combustion-turbine power plants.

He operated a large oil & gas producing property in South Texas for six years with Mobil Oil and others, and co-developed four electric power projects in the U.S. He later pursued a coalbed methane technology transfer opportunity in Colombia with ECOPETROL, the state-owned oil & gas company, which concluded successfully.

Mr Dickinson is active in the continuing investigation and testing of organic shales and bituminous coals in Oklahoma in the Arkoma and Cherokee Basins, and several other basins in the U.S. He has been published several times in industry journals, including: Independent Energy Magazine and Cogeneration & Small Power Monthly and has recently represented venture capital funds in London, Connecticut and Hong Kong in the investigation of new drilling technologies and power project development, including renewable energy.

Mr Dickinson has not served as a director of any Australian listed entity in the last three years.

(c) Justin Pettett - Managing Director and Chief Executive Officer
Executive Director (Appointed 1 December 2005)

As the Managing Director, Chief Executive Officer and co-founder of the Sterling Energy Group of Companies, Mr Pettett has broad experience as a public company director with positions in senior management.

Mr Pettett has worked successfully as a business analyst, broker and Managing Director of medium sized businesses for the past 14 years, the last seven in the U.S. oil and natural gas industry. He has widespread industry experience, specialising in oil, natural gas and coal bed methane acquisitions and development, as well as extensive commercial knowledge in financial analysis, business development, investor relations, capital aggregation and financial and administrative management.

Mr Pettett also has experience dealing with and advising clients in Australia and worldwide on a range of commodities including base, precious metals and energy.

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

(d) Ryan Messer - Chief Operating Officer
Executive Director (Appointed 1 December 2005)

Mr Messer graduated from the University of Central Florida with a degree in Business, Marketing and Finance and is a member of the Independent Petroleum Association of America. He has 12 years of experience in international corporate business, the last seven being in the energy sector, in the areas of oil and gas project finance, asset acquisition and divestiture, internal asset allocation, and risk assessment. He has expertise in managing field operations, assisting in the formation of technical evaluation teams and has direct involvement in the drilling and development of over 130 wells spread across five states throughout North America and also specialises in project management, research and design, partner relationship development, asset allocation and risk assessment, investment and company management and corporate strategic direction.

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

(e) Ananda Kathiravelu
Non–Executive Director (Appointed 1 December 2005)

Mr Kathiravelu holds a Bachelors degree in Business and a Graduate Diploma in Applied Finance and Investment. He is an associate of the Securities Institute of Australia and has over 15 years experience in the financial services industry.

His areas of expertise include corporate advice, capital raising and mergers and acquisitions, with primary focus on the small cap and emerging business sectors.

He is the Managing Director of Armada Capital Ltd, an investment bank and also holds directorships in the following ASX listed companies:

- Rockstead Financial Services Limited (formerly known as First Capital Group Limited) (11 December 2001 – current) (Executive Chairman); and
- Transit Holdings Limited (10 August 2006 – current) (Non-Executive Chairman)

(f) Philip Judge
Non–Executive Director (Appointed 25 September 2006; Resigned 29 January 2008)

Mr Judge has been involved in international business for more than 20 years and has extensive commodities experience having worked in, researched, written and lectured on the base and precious metals and commodities markets for more than a decade. He has worked as a trustee, investment strategy advisor and researcher with numerous qualified sophisticated investors and private venture capitalists worldwide. Mr Judge became involved in the oil and gas industry in 2004 in his capacity as director of the Anglo Energy Company.

He has also founded, and together with a dedicated team, built and managed a successful Australian television production and media services company.

Mr Judge is also involved with the following companies:

- Founding director of The Anglo Far-East Company, an international gold and silver trading and custodial company and
- Founding member of the Panama Association of International Precious Metals Dealers.

Mr Judge has not served as a director of any Australian listed entity in the last three years.

2. Company Secretaries

Mr Matthew Fogarty was the Company Secretary of Pryme up to 26 October 2007 and following his resignation, Janine Rolfe and Swapna Keskar were appointed as Joint Company Secretaries.

Janine Rolfe (BEc, LLB (Hons)) is a corporate lawyer specialising in company secretarial services. She is the company secretary of three other ASX listed entities: Tishman Speyer Office Fund, Walter Diversified Services Limited and Quickflix Limited, as well as a number of unlisted companies. Swapna Keskar (MCom, LLB) is 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. Advisory Board

Pryme's Advisory Board is a resource that management of Pryme can refer matters to at any time for professional advice. Members of the Advisory Board are:

(a) Donald Ellison – Advisory Director for Petroleum Engineering
Mr Ellison graduated from Missouri School of Mines with a Bachelor of Science in Petroleum Engineering. His singular domestic career has involved the management of the third largest oil and gas reserve in Texas, two significant oil and gas discoveries in Oklahoma that each has cumulative production of several million barrels of oil and several billion cubic feet of natural gas, a successful gas/condensate resource development project in East Texas. He has also been responsible for reserve engineering, production optimisation, design and installation of a vast gas and oil infrastructure on many giant oil and gas fields in Southwest Texas.

In 1989, Mr Ellison became the first US citizen to successfully establish a joint venture between a Russian state owned oil company and a US oil company for the production of oil and gas. His company Ellison Engineering conducts reservoir engineering studies, project management of oil and gas drilling completions and production operation, coal bed methane project consulting and thermal and wind power project co-development.

(b) James Stewart – Advisory Director for Geology, Petroleum Land and Environmental studies.
Mr Stewart graduated from University of Southern Mississippi with Bachelor of Science in Geology. His accomplishments and areas of activity include Geologist and Petroleum Land and Environmental Affairs Consultant since December 1983 in various states of the United States of America. He has been focussed on oil and gas prospect generation in north Louisiana, and has also managed the land and mineral leasing rights for two joint venture partnerships centred in the Wilcox Basin. Mr Stewart has represented clients in all environmental aspects, including site testing, evaluation, documentation, proposing test methods and remediation plans.

(c) Craig Sceroler – Advisory Director for Exploration
Mr Sceroler graduated from the College of Engineering, Louisiana Tech University with Bachelor of Science in Geology. Over the past eighteen years he has generated prospects in the south Louisiana Miocene trend as well as in the central Louisiana Eocene Wilcox trend.

His use of subsurface geology (defined as the correlating and mapping of formations identified by logging previous wells) integrated with the geophysics of 2-D and 3-D seismic data, makes it possible for Pryme to reduce its exploration risk as much as possible. Mr Sceroler has previously been involved as a staff geologist with Ecotech Environmental, Inc., working on remediation projects associated with ground water contamination and with Pentagon Petroleum Company developing plays in the Eocene Wilcox trend. He was also directly involved with the drilling of over 60 Wilcox wells through three drilling programs.

4. Principal Activities

The principal activities of the Consolidated Group during the year under review were acquiring, 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.

5. 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 2007 Annual Report. There are no other significant changes in the state of affairs of the Consolidated Group.

6. Events Subsequent to Reporting Date

On 25 January 2008, the Company completed a placement of 18,800,000 fully paid ordinary shares in the capital of Pryme at $0.35 per share to raise $6.58 million, subject to shareholder approval.

On 29 January 2008, George Lloyd was appointed as the Chairman of the Company and Philip Judge resigned as a director of the Company.

On 17 December 2007, the Company and its joint venture partner Wave Exploration Group LLC entered into an agreement to sell the Condor prospect mineral leases. The Company retained rights to future overriding royalties in respect of the mineral leases. The sale closed on 13 February 2008 and the Company received net proceeds of US$792,926 for its interest in the sale. The sale and the resultant gain was recorded after the year end in accordance with full cost accounting and the net proceeds reduced the oil and gas properties not subject to depletion, depreciation and amortisation.

On 6 July 2007, the shareholders approved the grant of 7,500,000 Options under the Directors Incentive Option Plan to directors John Dickinson, Justin Pettett and Ryan Messer subject to achievement of certain performance targets. These options had a $0.60 exercise price and an expiry date of 31 December 2009. However as announced to the ASX on 28 February 2008, these Directors advised the Board that they had voluntarily relinquished their options so that these options lapsed effective 31 December 2007.

Other than the matters discussed above, 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.

7. 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 2007 Annual Report.

Certain information about the likely developments in 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.

8. 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 2007.

9. Dividends

No dividend was paid, recommended for payment nor declared during the year under review.

10. Options and Rights

Since the end of the financial year, Pryme has not granted options over unissued ordinary shares.

Unissued Shares Under Option

As at the date of this Report, unissued ordinary shares of Pryme under option are:

Expiry date	Number of options	Exercise Price ($)
30 June 2008	3,750,000	0.20
30 June 2009	2,118,000	0.20
30 June 2008	41,487,374	0.40
Total	**47,355,374**	

Generally, there are no participating rights or entitlements inherent in the options and optionholders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options.

In the event of any reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of Pryme, before the expiry of any options, the number of options to which an optionholder is entitled or the exercise price of the options or both will be reconstructed as appropriate in accordance with the Listing Rules.

Outstanding Incentives

As at the date of this Report, there were 11,813,850 Options outstanding under the Pryme Directors' Incentive Option Plan (DIOP). The rights to exercise these options will only vest if Pryme achieves certain performance hurdles as set out in pages 9-10.

As at the date of this Report, there were 4,760,000 Rights outstanding under the Pryme Directors' Share Incentive Plan (DSIP). Rights will only vest if Pryme achieves certain performance hurdles as set out in page 10.

As mentioned in paragraph 6 (Events Subsequent to Reporting Date) and as announced to the ASX on 28 February 2008, John Dickinson, Justin Pettett and Ryan Messer advised the Board that they had voluntarily relinquished 7,500,000 options in total so that these options lapsed effective 31 December 2007

Shares issued on exercise of options

During or since the end of the financial year, ordinary shares issued as result of exercise of options are:

Date	Number of shares	Exercise Price ($)
4 January 2007	200,000	0.20
16 October 2007	200,000	0.20
7 November 2007	200,000	0.20
7 December 2007	500,000	0.20
Total	**1,100,000**	

All shares issued as a result of exercise of options are fully paid.

11. Directors' Meetings

The number of directors meetings and the number of meetings attended by each of the directors of Pryme during the financial year under review are:

Director	Number of meetings held during the tenure of the director	Number of meetings attended
John Dickinson	20	19
Justin Pettett	20	20
Ryan Messer	20	19
Ananda Kathiravelu	20	20
Philip Judge	20	16

There are no committees of the Board currently established and hence no meetings of any such committees have taken place. As will be described in the Pryme's 2007 Corporate Governance Statement, the Board, at its February meeting, resolved to establish an Audit Committee, a Risk Management Committee and a Remuneration & Nomination Committee. Details of attendance at those meetings will be described in Pryme's 2008 Annual Report.

12. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2007 are as follows:

Director	Ordinary Shares	Options over Ordinary Shares[1] (DIOP)		Rights to Receive Ordinary Shares[2] (DSIP)	American Depository Receipts
		$ 0.20	**$0.40**		
John Dickinson	1,700,000	3,450,000[3]	566,667	1,380,000	-
Justin Pettett	2,275,000	4,706,925[4]	585,002	2,000,000	-
Ryan Messer	1,700,000	3,656,925[3]	566,667	1,380,000	555[6]
Ananda Kathiravelu	4,727,500	3,500,000[5]	1,575,834		-
Philip Judge	4,565,163	-	1,504,722		-

[1]Further information on Options granted to directors as part of their remuneration is set out on pages 9-10.

[2]Further information on Rights granted to directors as part of their remuneration is set out on page 10.

[3]During the year, 759,000 options vested under the DIOP. None of these options were exercised. 2,691,000 Options which remain under the DIOP may vest before 30 June 2009. For further information, refer to pages 9-10 of the Remuneration Report.

[4] During the year, 1,100,000 options vested under the DIOP, out of which, 500,000 were exercised. 3,900,000 Options which remain under the DIOP may vest before 30 June 2009. For further information, refer to pages 9-10 of the Remuneration Report.

[5] Options are registered in the name of First Capital Corporate Limited, a related party of the director and expire 30 June 2008.

[6]Equivalent to 11,100 ordinary shares.

Other than as stated above in relation to options, 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.

13. Indemnification and Insurance of Officers and Auditors

Directors and the 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.

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, Moore Stephens, Pryme's auditor has the benefit of an indemnity to the extent Moore Stephens reasonably relies 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 2007 or to the date of this Report.

14. Non - Audit Services

Details of the amounts paid to Moore Stephens as 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 note that Moore Stephens was previously engaged to assist Pryme in an accounting capacity, however now only performs the function as auditor. Therefore, the directors are satisfied that:

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

  i. Moore Stephens services have not involved partners or staff acting in a managerial or decision making capacity within the Consolidated Group and have not been involved in the processing or originating of transactions;
  ii. a description of all non-audit services undertaken by Moore Stephens and the related fees have been monitored by the Board to ensure complete transparency in relation to services provided; and
  iii. the declaration required by section 307C of the Corporations Act confirming independence has been received from Moore Stephens.

The auditor's independence declaration under section 307C of the Corporations Act is set out on page 18 and forms a part of the Annual Financial Report for the year ended 31 December 2007.

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. Remuneration Report (Audited)

The information provided here is that required under Section 300A of the Corporations Act, Accounting Standard AASB 124 *Related Party Disclosures* and Principle 8 of the ASX Corporate Governance Principles and Recommendations.

Remuneration Policies and Practices

In relation to remuneration issues, the Board regularly reviews 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.

The remuneration structures reward the achievement of strategic objectives are designed to achieve the broader outcome of creation of value for shareholders.

There are up to three categories of remuneration employed to reward directors:

1. Salary and Fees;
2. Entitlement to Options over Ordinary Shares; and
3. Rights to acquire Ordinary Shares,

These represent a mix of fixed and "at-risk" pay and of short, medium and long-term rewards and incentives.

Non-Executive Director Remuneration

Fees

Non-executive director fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders in general meeting. The current limit is $300,000. During the year ended 31 December 2007, $164,829 of the fee pool was used.

Upon shareholder approval at the general meeting held on 6 July 2007, Mr Judge was issued 150,000 options. These options are exercisable at 40 cents each on or before 30 June 2008. Upon exercise, these options will convert to listed shares in Pryme on a one-for-one basis. This issue of options was in lieu of any fee or salary payable to Mr Judge.

Equity Participation

Non-executive directors are eligible to participate in the DIOP. Participation of these directors in this Plan is considered appropriate given their heavy involvement in Pryme's activities in the US. Such involvement by the non-executive directors is not unusual given the stage and development of Pryme.

In addition, the Vice-Chairman participates in the Directors Share Incentive Plan. The allocation of securities under this Plan was to the three founding members of Pryme (being Messrs Dickinson, Pettett and Messer; such members having been associated with the Sterling Energy Group of Companies). The ongoing contribution of the Vice-Chairman is critical to Pryme achieving the performance targets that have been set.

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

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

Executive Director Remuneration

Salaries

The Executive Directors are offered a base salary which is reviewed on a periodic basis.

Equity Participation

The Executive Directors participate in the Directors Incentive Option Plan. In addition, Messrs Pettett and Messer participate in the Directors Share Incentive Plan due to their ongoing contributions as Pryme's founding members.

Retirement Benefits

Details of the retirement benefits for each of the executive directors are set on page 17.

Other Benefits

Executive directors do not receive other benefits.

Superannuation

Pryme makes statutory employer contributions on behalf of executive directors to the superannuation fund of their choice.

<u>Relationship between Policy and Pryme's Performance - audited</u>

The salary and fees received by directors are set having regard to market conditions and the individual's experience and seniority in the role performed within Pryme.

Details of the Director Incentive Option Plan and Director Share Incentive Plan are set out below.

Description	**Rationale**
<u>Directors Incentive Option Plan (DIOP)</u> Under this Plan, directors may receive up to a number of options in three tranches which will vest and thereby permit the holder to exercise the options depending on the achievement of the hurdles described below. Vested options convert to ordinary shares on a one-for-one basis. The exercise price of each of the Options is 20 cents and the expiry date is 30 June 2009. **Hurdles** – 1. Upon Pryme increasing annual net operating income in the LaSalle Parish Project by 25% (to A$1,250,000 annually, calculated monthly) within 12 months from the date of listing Pryme through the drilling of further development wells. 2. Upon the successful conclusion of the 3D data acquisition (receipt of field tapes) the evaluation thereof and the preparation from the 3-D data of at least ten (10) drilling prospects in the South Central Louisiana seismic play and a total of 1,000,000 cubic feet per day (1,000mcfd) or oil equivalent (where the oil equivalent is 6,000 cubic	This Plan is a medium-term incentive that rewards the directors upon Pryme's achievement of key project milestones. It is envisaged that with the: • increase in net operating income from the La Salle Parish Project; and • production of oil from South Central Louisiana 3D, Pryme's earnings will increase. Furthermore, achievement of the pre-determined EBIT target will mean that Pryme has in fact increased its earnings. An increase in Pryme's earnings will in-turn, positively affect shareholder wealth. The Board envisages that with time, dividends would be paid out of retained earnings and the improvement in Pryme's operations will be reflected in an increasing share price.

feet (6mcf) equals 1 barrel of oil) net to Pryme is produced within the Performance Period. 3. Upon Pryme achieving an annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the Performance Period. The performance period for the second and third hurdles is from 1 July 2006 to 30 June 2009 (inclusive).	
<u>Directors Share Incentive Plan (DSIP)</u> Under this Plan, directors are granted rights which may vest upon the satisfaction of the hurdle described below. Vested rights automatically convert to ordinary shares on a one-for-one basis. **Hurdle –** Pryme achieving annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the Performance Period. The performance period for this hurdle is from 1 July 2006 to 30 June 2009 (inclusive).	This Plan was introduced to acknowledged the role of the founding member directors and ensure their continual involvement in Pryme over the next few years. In that respect, it is a long-term incentive. Please refer to above discussion in relation to EBIT for the relationship between this element of remuneration, intended company performance and intended shareholder wealth.

The use of the above performance-based rewards under the Directors Incentive Option Plan and Directors Share Incentive Plan are designed to ensure Pryme's leadership is retained and delivers sustainable, long-term shareholder returns. The Board believes that the at-risk component of the remuneration framework will effectively align management's interests with those of shareholders.

The Company only has limited information comparing executive compensation with historical investor return because it listed in April 2006.

	Event	**Closing Share Price ($)**
21 April 2006	ASX Listing	0.26
31 December 2006	Year end	0.58 (As at Friday, 29 December 2006)
20 April 2007	Annual Net Operating income in the LaSalle Parish Project increased by 25% (to A$1,250,000 annually calculated monthly) within 12 months from the date of listing Pryme through the drilling of further development wells.	0.54
31 December 2007	Year end	0.47

REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS [1]		TOTAL	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	CASH, SALARY & COMMIS-SIONS	CASH PROFIT SHARE	NON-CASH BENEFIT	TOTAL	SUPER-ANNUATION	LONG TERM BENEFIT S	OPTIONS	RIGHTS			
	$	$	$	$	$		$	$	$	%	%
DIRECTORS											
Non-Executive											
JOHN DICKINSON											
2007	104,311	-	-	**104,311**	-	-	291,000	267,890	**663,201**	84	44
2006	78,539	-	-	**78,539**	2,492	-	153,870	143,244	**378,145**	79	41
ANANDA KATHIRAVELU											
2007	81,795	-	-	**81,795**	7,362	-	-	-	**89,157**	-	-
2006	48,932	-	-	**48,932**	2,453	-	-	-	**51,385**	-	-
PHILIP JUDGE											
2007	-	-	-	**-**	-	-	-	-	**-**	-	-
2006	-	-	-	**-**	-	-	-	-	**-**	-	-

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS [1]		TOTAL	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	CASH, SALARY & COMMIS-SIONS	CASH PROFIT SHARE	NON-CASH BENEFIT	TOTAL	SUPER-ANNUATION	LONG TERM BENEFITS	OPTIONS	RIGHTS			
Executive											
JUSTIN PETTETT Managing Director											
2007	296,556	-	-	**296,556**	26,619	-	448,000	413,200	**1,184,375**	73	36
2006	124,913	-	-	**124,913**	5,286	-	223,000	207,600	**560,799**	77	41
RYAN MESSER Chief Operating Officer											
2007	205,251	-	-	**205,251**	-		291,000	267,890	**764,141**	73	38
2006	106,325	-	-	**106,325**	3,998	-	153,870	143,244	**407,437**	73	38
TOTAL											
2007	**687,913**	**-**	**-**	**687,913**	**33,981**	**-**	1,030,000	948,980	**2,70,0874**		
2006	358,709	-	-	**358,709**	**14,239**	-	**530,740**	**494,088**	**1,397,766**		

1. Total Directors ' remuneration of $2,700,874(2006: $1,397,766) comprises of $721,894 (2006: $372,938) which was paid in cash or cash equivalents to directors and an amount of $1,978,980 (2006: $1,024,828) which is attributable to the expensing of the Directors' Incentive Option Plan (DIOP) and Directors' Share Incentive Plan (DSIP) in accordance with Australian Accounting Standard AASB2 – Share-based payment (AASB 2). AASB2 requires securities (rights and options in case of Pryme) to be expensed over the performance period of the security, from the date of the grant and despite the fact that attaching transparent performance hurdles are yet to be achieved. In the case of DIOP, the first performance hurdle has been achieved (with the total expense attributable to this being $233,526). Two performance hurdles remain outstanding however. The entire performance hurdle remains outstanding with respect to the DSIP. The performance period in respect of the DIOP and DSIP does not end until 30 June 2009.

Should the performance hurdles put in place by shareholders not be achieved within the performance period that ends 30 June 2009, the expensing of the outstanding options and rights will be reversed in the Group's financial report by adjustment to the retained earnings via the Statement of Changes in Equity.

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION - UNAUDITED

There are no short term incentive bonuses awarded to any key management personnel as part of their compensation.

FAIR VALUE OF OPTIONS – FACTORS AND ASSUMPTIONS - AUDITED

The following factors and assumptions were used in determining the fair value of options on grant date.

Grant Date		Expiry Date	Fair Value per option ($)	Exercise Price ($)	Price of shares on grant date ($)	Estimated volatility (%)	Risk free interest rate (%)	Dividend yield (%)
31.07.06	Tranche 1	30.06.09	0.1784	0.20	0.73	75	5.695	0
31.07.06	Tranche 2	30.06.09	0.1784	0.20	0.73	75	5.695	0
31.07.06	Tranche 3	30.06.09	0.1784	0.20	0.73	75	5.695	0

The options, if granted, will be provided at no cost to the recipients.

No options have been granted since the end of the financial year.

As at 20 April 2007, 2,618,000 options vested and are exercisable. As at the date this report, 500,000 have been exercised. The options in respect of Tranche 2 and 3, if vested, are exercisable until 30 June 2009, upon the satisfaction of those performance hurdles as set out on pages 9-10.

If any of the recipients cease to be a director of Pryme, the entitlement to receive the options that have not vested because the relevant performance hurdles have not been met, will lapse. However, the recipient will be entitled to retain any Options that have vested and not yet been exercised pursuant to the DIOP.

FAIR VALUE OF SHARES – FACTORS AND ASSUMPTIONS - AUDITED

The following factors and assumptions were used in determining the fair value of DSIP securities on allocation date:

Director	Share Allocation	Fair Value Per Share ($)
John Dickinson	1,380,000	0.63
Justin Pettett	2,000,000	0.63
Ryan Messer	1,380,000	0.63

The fair value of the deferred shares is based on the market value of Pryme shares on the allocation date, which is the date of shareholder approval at general meeting (20 July 2006). The fair value is expensed over the vesting period of the DSIP securities, such vesting period being 1 July 2006 – 30 June 2009 (inclusive).

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – AUDITED

Details of entitlements to options over ordinary shares in Pryme that were granted to key management personnel as compensation during the reporting period and details on options that vested during the reporting period are as follows:

Name	Year	Held at the beginning of the year	Granted as Remuneration	Exercised	Lapsed	Held at the end of the Financial year	Vested during the year	Vested and exercisable as at 31 December 2007
Executive Directors								
Justin Pettett	2007	5,000,000[1]	-	500,000	-	4,500,000	1,100,000	600,000
	2006	-	5,000,000[1]	-	-	5,000,000	-	
Ryan Messer	2007	3,450,000[1]	-	-	-	3,450,000	759,000	759,000
	2006	-	3,450,000[1]	-	-	3,450,000	-	
Non – Executive Directors								
John Dickinson	2007	3,450,000[1]	-	-	-	3,450,000	759,000	759,000
	2006	-	3,450,000[1]	-	-	3,450,000	-	
Ananda Kathiravelu	2007	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	
Philip Judge	2007	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-

[1] The entitlement to options arose on 31 July 2006. The outstanding options that may vest will be granted in two tranches until 30 June 2009 expiry date with an exercise price of $0.20 and a fair value of $0.1784 per option. Options vest upon performance hurdles being attained. Details of the performance hurdles are set out on pages 9-10 of the Remuneration Report.

As at 31 December 2007, there were no vested and unexercisable options as under the rules of the DIOP, all vested options may be exercised.

EXERCISE OF OPTIONS GRANTED AS COMPENSATION – AUDITED

During the reporting period, the following shares were issued to key management personnel on the exercise of options previously granted as compensation:

Director	Number of shares[1]	Amount paid per share
Justin Pettett	500,000	$0.20

[1] There are no amounts unpaid on the shares issued as a result of the exercise of the Options.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – UNAUDITED

Details of the vesting profile of the entitlement to options granted as remuneration to each of the non-executive and executive directors are set out on the below:

	Entitlement to Options to be granted					**Value yet to vest**	
	Number	Date	% vested in year	% forfeited in year[1]	Financial year in which grant vests	Min ($)[2]	Max ($)[3]
Executive Directors							
Justin Pettett	1,100,000	31.07.06	100	-	31.12.07	-	-
	2,150,000	31.07.06	-	-	31.12.09	-	383,560
	1,750,000	31.07.06	-	-	31.12.09	-	312,200
Ryan Messer	759,000	31.07.06	100	-	31.12.07	-	-
	1,483,500	31.07.06	-	-	31.12.09	-	264,656
	1,207,500	31.07.06	-	-	31.12.09	-	215,418
Non – Executive Directors							
John Dickinson	759,000	31.07.06	100	-	31.12.07	-	-
	1,483,500	31.07.06	-	-	31.12.09	-	264,656
	1,207,500	31.07.06	-	-	31.12.09	-	215,418
Ananda Kathiravelu	-	-	-	-	-	-	
Philip Judge	-	-	-	-	-	-	-

[1]The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest performance criteria not being achieved.

[2]The minimum value of options yet to vest is $nil as the performance criteria may not be met and consequently the option may not vest.

[3]The maximum value of options yet to vest is not determinable as it depends on the achievement of performance hurdles prior to 30 June 2009. The maximum values presented above are based on the fair value of the options over their life calculated at entitlement date using a Black-Scholes Merton model.

ANALYSIS OF MOVEMENTS ON OPTIONS – UNAUDITED

The movement during the reporting period, by total number of entitlement to options over ordinary shares in Pryme held by key management personnel is detailed below:

	Year	**Entitlement to Options granted in year $[2]**	**Exercised in Year $[3]**	**Forfeited in Year $**	**Total Option Value in Year $**
Executive Directors					
Justin Pettett	2007	-	97,500	-	-
	2006	892,000	-	-	892,000
Ryan Messer	2007	-	-	-	1,092,320
	2006	615,480	-	-	615,480

	Year	Entitlement to Options granted in year $[2]	Exercised in Year $[3]	Forfeited in Year $	Total Option Value in Year $
Non – Executive Directors					
John Dickinson	2007	-	-	-	546,160
	2006	615,480	-	-	615,480
Ananda Kathiravelu[1]	2007	-	-	-	-
	2006	-	-	-	-
Philip Judge	2007	-	-	-	-
	2006	-	-	-	-

[1] The related party of the director, First Capital Corporate Limited, received 3,500,000 Options on 27 July 2007. These options have an exercise price of $0.20 per option. The primary purpose of the issue was to provide consideration to the recipient for its services in providing marketing, promotion, strategic advice and for its introduction of Pryme to investor networks.

[2] The value of the entitlement to options grants in the year is the fair value of the options calculated at grant date using a Black-Scholes Merton pricing model.

[3] The value of options exercised during the year is calculated as the market price of shares of Pryme on the ASX as at the close of trading on the date the Options were exercised after deducting the price paid to exercise the Options.

SUMMARY OF KEY CONTRACTS TERMS – AUDITED

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

Contract Details	Justin Pettett	Ryan Messer
Duration of contract	Three Years (commencing from 31 May 2007). The term of the Executive Employment Agreement may be extended for a further three years.	Three Years (commencing from 26 June 2006). The term of the Executive Employment Agreement may be extended for a further three years.
Termination notice period	**Termination with reason:** Termination without notice: If the executive is convicted of a major criminal offence that brings Pryme into lasting disrepute. Termination with notice: One month's notice if the executive commits any serious or persistent breach of any of the provisions the relevant Executive Employment Agreement or the executive commits or is found guilty of gross misconduct. Three months' notice if the executive becomes unable to perform his duties due to illness for a prolonged period of time. Voluntary termination: This requires three months' notice by the executive to Pryme.	**Termination with reason:** Termination without notice: If the executive is convicted of a major criminal offence that brings Pryme into lasting disrepute. Termination with notice: One month's notice if the executive commits any serious or persistent breach of any of the provisions the relevant Executive Employment Agreement or the executive commits or is found guilty of gross misconduct. Three months' notice if the executive becomes unable to perform his duties due to illness for a prolonged period of time. Voluntary termination: This requires three months' notice by the executive to Pryme.

	<u>Termination without reason at the sole discretion of the Company:</u> <u>Three month's notice.</u>	
Termination payments	Where notice is required to be given prior to termination, the Company may at its sole discretion dispense with the notice period and pay twelve months salary. In case of termination by the Company without reason, payment of nine months salary after the expiry of the three months notice or in the absence of the three months notice, twelve months salary. Outstanding annual leave, plus six months salary.	Where notice is required to be given prior to termination, the Company may at its sole discretion dispense with the notice period and pay twelve months salary. Outstanding annual leave.

17. Corporate Governance

The directors aspire to maintain the highest possible standards of Corporate Governance. Pryme's Corporate Governance Statement will be 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 2008

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001
To the Directors of Pryme Oil and Gas Limited

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2007 there have been:

i. no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Moore Stephens

MOORE STEPHENS

M J McDonald
Partner

Date: 27 February 2008.

Brisbane, Queensland.

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PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Revenue	2	1,698,296	1,053,387	673,578	392,526
Accounting and audit fees		(268,900)	(65,058)	(160,876)	(40,811)
Depreciation and amortisation expenses and write-offs	3	(650,925)	(340,756)	(3,253)	(1,260)
Directors remuneration	5(c)	(721,894)	(372,938)	(412,332)	(268,250)
Directors remuneration - DIOP & DSIP	5(c)	(1,978,980)	(1,024,828)	(861,200)	(430,600)
Employee benefits expense		(64,488)	(15,215)	(24,933)	(10,389)
Legal Expenses		(88,424)	(66,439)	(88,686)	(49,761)
Production costs		(392,819)	(266,411)	-	-
Professional consulting fees		(212,442)	(122,771)	-	-
Share registry and listing costs		(53,363)	(87,449)	(47,442)	(87,449)
Travel & accomodation expenses		(338,452)	(173,351)	(255,491)	(155,816)
Other expenses		(270,856)	(267,508)	(148,315)	(181,074)
Share of net profits of associates and joint ventures		(18,724)	(298,278)	-	-
Loss before income tax	3	(3,361,971)	(2,047,615)	(1,328,950)	(832,884)
Income tax expense	4	-	-	-	-
Net loss attributable to members of the parent entity		(3,361,971)	(2,047,615)	(1,328,950)	(832,884)
Basic earnings per share (cents per share)	7	(3.5)	(5.0)		
Diluted earnings per share (cents per share)	7	(2.3)	(4.0)		

The accompanying notes form part of these financial statements.

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	1,854,713	4,784,829	1,746,107	4,316,445
Trade and other receivables	9	350,379	112,712	121,723	-
Other current assets		-	15,514	-	-
TOTAL CURRENT ASSETS		2,205,092	4,913,055	1,867,830	4,316,445
NON-CURRENT ASSETS					
Trade and other receivables	9	-	-	22,526,696	12,577,634
Investments accounted for using the equity method	10	6,308,229	3,130,786	-	-
Property, plant and equipment	12	5,826	6,503	5,826	6,503
Intangible assets	13	-	1,077	-	1,077
Working Interest	14	11,262,436	7,385,404	-	-
Other financial assets		-	-	114	114
TOTAL NON-CURRENT ASSETS		17,576,491	10,523,770	22,532,636	12,585,328
TOTAL ASSETS		19,781,583	15,436,825	24,400,466	16,901,773
CURRENT LIABILITIES					
Trade and other payables	15	1,115,634	439,696	187,667	79,257
TOTAL CURRENT LIABILITIES		1,115,634	439,696	187,667	79,257
TOTAL LIABILITIES		1,115,634	439,696	187,667	79,257
NET ASSETS		18,665,949	14,997,129	24,212,799	16,822,516
EQUITY					
Issued capital	16	21,508,685	14,952,733	21,508,685	14,952,733
Reserves		2,566,850	2,092,011	4,865,948	2,702,667
Accumlated losses		(5,409,586)	(2,047,615)	(2,161,834)	(832,884)
TOTAL EQUITY		18,665,949	14,997,129	24,212,799	16,822,516

The accompanying notes form part of these financial statements.

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Ordinary	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
CONSOLIDATED GROUP		$	$	$	$	$
Balance at 1 January 2006		-	-	-	-	-
Loss for the year		-	(2,047,615)	-	-	(2,047,615)
Shares issued during the year	16	16,373,852	-	-	-	16,373,852
Share capital raising cost		(1,421,119)	-	-	-	(1,421,119)
Adjustments from translation of foreign controlled entities		-	-	(610,656)	-	(610,656)
Options issued during the year		-	-	-	2,702,667	2,702,667
Balance at 31 December 2006		14,952,733	(2,047,615)	(610,656)	2,702,667	14,997,129
Loss for the year		-	(3,361,971)	-	-	(3,361,971)
Shares issued during the year	16	6,929,500	-	-	-	6,929,500
Share capital raising cost		(373,548)	-	-	-	(373,548)
Adjustments from translation of foreign controlled entities		-	-	(1,688,442)	-	(1,688,442)
Options issued during the year		-	-	-	2,163,281	2,163,281
Balance at 31 December 2007		21,508,685	(5,409,586)	(2,299,098)	4,865,948	18,665,949

	Note	Ordinary	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
PARENT ENTITY		$	$	$	$	$
Balance at 1 January 2006		-	-	-	-	-
Loss for the year		-	(832,884)	-	-	(832,884)
Shares issued during the year	16	16,373,852	-	-	-	16,373,852
Share capital raising cost		(1,421,119)	-	-	-	(1,421,119)
Options issued during the year		-	-		2,702,667	2,702,667
Balance at 31 December 2006		14,952,733	(832,884)	-	2,702,667	16,822,516
Loss for the year		-	(1,328,950)	-	-	(1,328,950)
Shares issued during the year	16	6,929,500	-	-	-	6,929,500
Share capital raising cost		(373,548)	-	-	-	(373,548)
Options issued during the year		-	-	-	2,163,281	2,163,281
Balance at 31 December 2007		21,508,685	(2,161,834)	-	4,865,948	24,212,799

The accompanying notes form part of these financial statements.

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,442,193	1,295,262	-	-
Interest received		133,950	36,758	133,950	36,758
Payments to suppliers and employees		(3,353,468)	(1,966,745)	(511,760)	(358,525)
Net cash provided by (used in) operating activities	21a	(1,777,325)	(634,725)	(377,810)	(321,767)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(1,499)	(7,763)	(1,499)	(7,762)
Purchase of other non-current assets		-	(1,077)	-	(1,077)
Purchase of equity accounted investment		(3,196,167)	(2,832,508)	-	-
Payment for work interest		(4,411,077)	(2,991,712)	-	-
Net cash provided by (used in) investing activities		(7,608,743)	(5,833,060)	(1,499)	(8,839)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares (net of capital raising costs)		6,455,952	11,252,614	6,455,952	11,252,614
Loans advanced		-	-	(8,646,981)	(6,605,563)
Net cash provided by (used in) financing activities		6,455,952	11,252,614	(2,191,029)	4,647,051
Net increase in cash held		(2,930,116)	4,784,829	(2,570,338)	4,316,445
Cash at beginning of financial year		4,784,829	-	4,316,445	-
Cash at end of financial year	8	1,854,713	4,784,829	1,746,107	4,316,445

The accompanying notes form part of these financial statements.

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, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated group of Pryme Oil and Gas Limited and controlled entities, and Pryme Oil and Gas Limited as an individual parent entity. Pryme Oil and Gas Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Pryme Oil and Gas Limited and controlled entities, and Pryme Oil and Gas Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity Pryme Oil and Gas Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a 31 December financial year-end.

All inter-company 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 consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value 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 assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Where applicable, increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives 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%

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 on Working Interest

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

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 plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining 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) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

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 stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

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 arms length transactions, reference to similar instruments and option pricing models.

Impairment
At each reporting date, the group assess 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.

(f) 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 assets carrying value. Any excess of the assets 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.

(g) Investments in Associates
Investments in associate unincorporated entities are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post acquisition reserves of its associates.

(h) 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.

Consolidated Group
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 transferred directly to the groups foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(i) Employee Benefits
Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

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.

(j) 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.

(k) 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.

(l) Revenue

The group uses the sales method to account for sales of crude oil and natural gas revenues. Under this method, revenues are recognized based on actual volumes of oil and gas sold to purchasers. The volumes sold may differ from the volumes to which the group is entitled based on interests in the revenue from the sale of goods is recognised upon the delivery of goods to customers. 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).

(m) 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 Taxation 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.

(n) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. The comparative for 2006 are for the period 1 December 2005 (date of registrationof the parent entity) to 31 December 2006.

(o) Capital Raising Costs

In accordance with AASB 132: Financial Instruments: Presentation all transaction costs on the issue of equity instruments are to be recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

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.

Key Estimates — 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.

No impairment has been recognised for the year ended 31 December 2007.

Key Judgments — Provision for impairment of Receivables

No key judgements were made during the year.

Note 2 Revenue

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Sales Revenue				
— Oil and gas revenue	1,564,346	1,016,629	-	-
Total Sales Revenue	1,564,346	1,016,629	-	-
Other Revenue				
— Interest revenue from other persons	133,950	36,758	133,950	36,758
— Other revenue	-	-	539,628	355,768
Total Other Revenue	133,950	36,758	673,578	392,526
Total Sales Revenue and Other Revenue	1,698,296	1,053,387	673,578	392,526

Note 3 Loss for the Year

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
(a) Expenses				
Production costs - oil and gas	392,819	266,411	-	-
Depreciation and amortisation	3,253	1,260	3,253	1,260
Depletion of working interest	647,672	339,496	-	-
Total Depreciation, amortisation and write-offs	650,925	340,756	3,253	1,260

Note 4 Income Tax Expense

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
(a) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2006: 30%)				
— consolidated group	(1,008,591)	(614,284)		
— parent entity			(398,685)	(249,865)
Add:				
Tax effect of:				
— other non-allowable items	56,840	46,609	53,599	28,333
— effect of current year tax losses derecognised	488,240	327,392	234,225	180,276
— share options expensed during year	615,515	328,247	258,360	129,180
	152,004	87,964	147,499	87,924
Less:				
Tax effect of:				
— tax deductible equity raising costs	124,894	85,267	124,894	85,267
— tax deductible formation costs	-	1,757	-	1,757
— other tax deductible items	27,110	940	22,605	900
Income tax attributable to entity	-	-	-	-
The applicable weighted average effective tax rates are as follows:	0%	0%	0%	0%
(b) Deferred tax assets not brought to account:				
— temporary differences	400,183	386,809	381,098	367,644
— tax losses - operating	815,632	414,501	327,392	180,276
	1,215,815	801,310	708,490	547,920

Note 5 Key Management Personnel Compensation

(a) Names and positions held of consolidated group and parent entity key management personnel in office at any time during or since the end of 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	
John Dickinson	Director since 1 December 2005; Former Chairman and appointed Vice-Chairman 29 January 2008
Ananda Kathiravelu	Director since 1 December 2005
Philip Judge	Appointed Director on 25 September 2005; resigned on 29 January 2008
George Lloyd	Appointed as Director and Chairman on 29 January 2008

(b) **Compensation Practices**
The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The Board has policies that are established to 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. The remuneration structures reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. There are up to three categories of remuneration employed to reward directors:
1. Salary and Fees
2. Entitllement to Options over Ordinary Shares; and
3. Rights to acquire Ordinary Shares;
thereby representing a mix of fixed and "at-risk" pay and of short, medium and long-term rewards.

(c) **Key Management Personnel Compensation**

2007	Short-term benefits				Post Employment Benefits
	Cash, salary & commissions $	Cash profit share $	Non-cash benefit $	Other $	Super-annuation $
Key Management Person					
Justin Pettett	296,556	-	-	-	26,619
Ryan Messer	205,251	-	-	-	-
John Dickinson	104,311	-	-	-	-
Ananda Kathiravelu	81,795	-	-	-	7,362
Philip Judge	-	-	-	-	-
	687,913	-	-	-	33,981

2007 (cont.)	Other long term benefits	Share-based payment		Total	Performance related
	Other $	Equity $	Options $	$	%
Key Management Person					
Justin Pettett	-	413,200	448,000	1,184,375	73%
Ryan Messer	-	267,890	291,000	764,141	73%
John Dickinson	-	267,890	291,000	663,201	84%
Ananda Kathiravelu	-	-	-	89,157	0%
Philip Judge	-	-	-	-	0%
	-	948,980	1,030,000	2,700,874	

Total Directors' remuneration of $2,700,874 (2006: $1,397,766) comprises of $721,894 (2006: $372,938) which was paid in cash or cash equivalents to directors and an amount of $1,978,980 (2006: $1,024,828) which is attributable to the expensing of the Director Incentive Option Plan (DIOP) and Director Share Incentive Plan (DSIP) in accordance with Australian Accounting Standard AASB2 – Share-Based Payment (AASB2). AASB2 requires securities (rights and options in the case of Pryme) to be expensed over the performance period of the security, from the date of the grant and despite the fact that attaching transparent performance hurdles are yet to be achieved. In the case of DIOP, the first performance hurdle has been achieved (with the total expense attributable to this being $233,526). Two performance hurdles remain outstanding however. The entire performance hurdle remains outstanding with respect to the DSIP. The performance period in respect of the DIOP and DSIP does not end until 30 June 2009.

Should the performance hurdles put in place by shareholders not be achieved within the performance period that ends 30 June 2009, the expensing of the outstanding options and rights will be reversed in the group's financial report by adjustment to the retained earnings via the statement of changes in equity. Further details concerning the DIOP and DSIP are set out in the Directors' Report and Note 5(h) below.

2006	Short-term benefits				Post Employment Benefits
	Cash, salary & commissions $	Cash profit share $	Non-cash benefit $	Other $	Super-annuation $
Key Management Person					
Justin Pettett	124,913	-	-	-	5,286
Ryan Messer	106,325	-	-	-	3,998
John Dickinson	78,539	-	-	-	2,492
Ananda Kathiravelu	48,932	-	-	-	2,453
Philip Judge	-	-	-	-	-
	358,709	-	-	-	14,229

2006 (cont.)	Other long term benefits	Share-based payment		Total	Performance related
	Other $	Equity $	Options $	$	%
Key Management Person					
Justin Pettett	-	207,600	223,000	560,799	77%
Ryan Messer	-	143,244	153,870	407,437	73%
John Dickinson	-	143,244	153,870	378,145	79%
Ananda Kathiravelu	-	-	-	51,385	0%
Philip Judge	-	-	-	-	0%
	-	494,088	530,740	1,397,766	

(d) **Compensation Options**

Options Granted as Compensation

	Grant Date	Granted No.	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date	Vested No.
Key Management Personnel							
Justin Pettett	31.07.2006	5,000,000	0.178	0.20	21.04.2007	30.06.2009	1,100,000
Ryan Messer	31.07.2006	3,450,000	0.178	0.20	21.04.2007	30.06.2009	759,000
John Dickinson	31.07.2006	3,450,000	0.178	0.20	21.04.2007	30.06.2009	759,000
Ananda Kathiravelu	-	-	-	-	-	-	-
Phillip Judge	06.07.2007	150,000	0.174 - 0.248	0.40	06.07.2007	30.06.2008	150,000
		12,050,000					2,768,000

On 6 July 2007, the shareholders approved the grant of 7,500,000 options under the Directors Incentive Option Plan to directors John Dickinson, Justin Pettett and Ryan Messer subject to achievement of certain performance targets. These options had a $0.60 exercise price and an expiry date of 31 December 2009 . However, as announced to the ASX on 28 February 2008, the Directors advised the Board that they had voluntarily relinquished their options so that these options lapsed effective 31 December 2007.

Terms and conditions of the grant are set out in the Remuneration Report.

(e) **Shares Issued on Exercise of Compensation Options**

During the year under review 500,000 shares were issued as a result of exercise of 500,000 options granted as compensation in prior period.

(f) **Options and Rights Holdings**

(i) Number of Options held by Key Management Personnel granted as compensation

2007	Balance 01.01.2007	Granted as Compensation	Exercised	Other Changes*	Balance 31.12.07	Vested during the year	Vested & Exercisable 31.12.07	Total Unexercisable 31.12.07
Justin Pettett	5,000,000	-	(500,000)	-	4,500,000	1,100,000	600,000	3,900,000
Ryan Messer	3,450,000	-	-	-	3,450,000	759,000	759,000	2,691,000
John Dickinson	3,450,000	-	-	-	3,450,000	759,000	759,000	2,691,000
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Philip Judge	-	150,000	-	-	150,000	150,000	150,000	-
	11,900,000	150,000	(500,000)	-	11,550,000	2,768,000	2,268,000	9,282,000

2006	Balance 01.12.2005	Granted as Compensation	Exercised	Other Changes*	Balance 31.12.06	Vested during the year	Vested & Exercisable 31.12.07	Total Unexercisable 31.12.06
Justin Pettett	-	5,000,000	-	-	5,000,000	-	5,000,000	-
Ryan Messer	-	3,450,000	-	-	3,450,000	-	3,450,000	-
John Dickinson	-	3,450,000	-	-	3,450,000	-	3,450,000	-
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Philip Judge	-	-	-	-	-	-	-	-
	-	11,900,000	-	-	11,900,000	-	11,900,000	-

(ii) Number of Rights held by Key Management Personnel granted as compensation

2007	Balance 01.01.2006	Granted as Compensation	Exercised	Other Changes*	Balance 31.12.07	Vested during the year	Vested & Exercisable 31.12.07	Total Unexercisable 31.12.07
Justin Pettett	-	2,000,000	-	-	2,000,000	-	-	2,000,000
Ryan Messer	-	1,380,000	-	-	1,380,000	-	-	1,380,000
John Dickinson	-	1,380,000	-	-	1,380,000	-	-	1,380,000
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Philip Judge	-	-	-	-	-	-	-	-
	-	4,760,000	-	-	4,760,000	-	-	4,760,000

2006	Balance 01.12.2005	Granted as Compensation	Exercised	Other Changes*	Balance 31.12.06	Vested during the year	Vested & Exercisable 31.12.07	Total Unexercisable 31.12.06
Justin Pettett	-	2,000,000	-	-	2,000,000	-	-	2,000,000
Ryan Messer	-	1,380,000	-	-	1,380,000	-	-	1,380,000
John Dickinson	-	1,380,000	-	-	1,380,000	-	-	1,380,000
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Philip Judge	-	-	-	-	-	-	-	-
	-	4,760,000	-	-	4,760,000	-	-	4,760,000

* Other changes refers to options/rights that expired or were forfeited during the financial year.
If any of the recipients cease to be a director of Pryme, then, the entitlement to receive the options/rights that have not been granted or issued, because the relevant performance criteria having not been met, will lapse. However, the recipient will be entitled to retain any options/rights that have been granted pursuant to the DIOP and DSIP .

(g) **Shareholdings**

Number of ordinary shares held by Key Management Personnel

2007 Key Management	Balance 01.01.2007	Received as Compensation	Options Exercised	Other Changes*	Balance 31.12.07
Justin Pettett	1,755,000	-	500,000	20,000	2,275,000
Ryan Messer**	1,700,000	-	-	-	1,700,000
John Dickinson	1,700,000	-	-	-	1,700,000
Ananda Kathiravelu	4,727,500	-	-	-	4,727,500
Philip Judge	4,514,163	-	-	51,000	4,565,163
	14,396,663	-	500,000	71,000	14,967,663

2006 Key Management	Balance 01.12.2005	Received as Compensation	Options Exercised	Other Changes*	Balance 31.12.06
Justin Pettett	1,720,000	-	-	35,000	1,755,000
Ryan Messer**	1,700,000	-	-	-	1,700,000
John Dickinson	1,700,000	-	-	-	1,700,000
Ananda Kathiravelu	4,727,500	-	-	-	4,727,500
Philip Judge	4,514,163	-	-	-	4,514,163
	14,361,663	-	-	35,000	14,396,663

* Other changes refers to shares purchased or sold during the financial year.
** Ryan Messer also holds American Depositary Receipts as set out in Directors' Report.

(h) **Share based payments**

Directors' Incentive Option Plan:

Shareholders approved the introduction of the Directors' Incentive Option Plan (DIOP) at the 20 July 2006 General Meeting.
Each option that may be granted under the DIOP entitles the director to acquire one ordinary share of Pryme Oil & Gas Limited. There are no voting or dividend rights attaching to the options until they are exercised by the director, at which point ordinary shares which rank equally with all other Pyrme shares are issued and quoted on the ASX. The options cannot be transferred and will not be quoted on the ASX.

If any of the recipients cease to be a director of Pryme, then, the entitlement to receive the options that have not been granted or issued, because the relevant performance criteria having not been met, will lapse. However, the recipient will be entitled to retain any options that have been granted pursuant to the DIOP .

The terms and conditions of the entitlements are as follows, whereby all options are settled by physical delivery of shares:

ENTITLEMENT DATE	NO. OF OPTIONS	VESTING DATE	VESTING CONDITIONS	EXPIRY DATE	LIFE OF ENTITLEMENT	EXERCISE PRICE
31.07.06	2,618,000	21.04.07	Note a.	30.06.09	3 years	$0.20
31.07.06	5,117,000	up to 30.06.09	Note b.	30.06.09	3 years	$0.20
31.07.06	4,165,000	up to 30.06.09	Note c.	30.06.09	3 years	$0.20

Note a: On 20.04.07 the options vested upon Pryme increasing annual net operating income in the LaSalle Parish Project by 25% (to A$1,250,000 annually calculated monthly) within 12 months from the date of listing Pryme through the drilling of further development wells.

Note b: The options will be granted upon the successful conclusion of the 3D data acquisition (receipt of field tapes) the evaluation thereof and the preparation from the 3-D data of at least ten (10) drilling prospects in the South Central Louisiana seismic play and a total of 1,000,000 cubic feet per day (1,000mcfd) or oil equivalent (where the oil equivalent is 6,000 cubic feet (6mcf) equals 1 barrel of oil) net to Pryme is produced within the performance period.

Note c: The options will be granted upon Pryme achieving an annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the performance period.

The number and weighted average exercise prices of share options is as follows:

	Weighted Av. Exercise Price 2007	No. of Options 2007	Weighted Av. Exercise Price 2006	No. of Options 2006
Outstanding at the beginning of the period	$0.20	11,900,000	None	None
Forfeited during the period	None	None	None	None
Exercised during the period	$0.20	500,000	None	None
Granted during the period	None	None	$0.20	11,900,000
Outstanding at the end of the period	$0.20	11,400,000	$0.20	11,900,000
Exercisable at the end of the period	$0.20	2,768,000	None	None

The options outstanding at 31 December 2007 have an exercise price of $0.20 (2006: $0.20) and a weighted average contractual life of 1.5 years (2006: 2.5 years).

During the financial year 500,000 options were exercised.

Directors' Share Incentive Plan:

Shareholders approved the introduction of the Directors' Share Incentive Plan (DSIP) at the 20 July 2006 General Meeting.

Each right granted under the DSIP entitles the director to acquire one ordinary share of Pryme Oil & Gas Limited. There are no voting or dividend rights attaching to the rights until they vest, at which point ordinary shares which rank equally with all other Pyrme shares are issued and quoted on the ASX. The rights cannot be transferred and will not be quoted on the ASX.

If any of the recipients cease to be a director of Pryme, then any rights for which the relevant performance criteria has not been met, will lapse. However, the recipient will be entitled to retain any shares that have been issued upon the vesting of rights.

The terms and conditions of the entitlements are as follows, whereby all options are settled by physical delivery of shares:

ENTITLEMENT DATE	NO. OF RIGHTS	VESTING DATE	VESTING CONDITIONS	EXPIRY DATE	LIFE OF ENTITLEMENT	EXERCISE PRICE
31.07.06	4,760,000	up to 30.06.09	Note a.	30.06.09	3 years	N/A

Note a: The rights will vest upon Pryme achieving an annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the performance period.

The number and weighted average exercise prices of share options is as follows:

	Weighted Av. Exercise Price 2007	Rights 2007	Weighted Av. Exercise Price 2006	Rights 2006
Outstanding at the beginning	N/A	None	N/A	None
Forfeited during the period	N/A	None	N/A	None
Exercised during the period	N/A	None	N/A	None
Granted during the period	N/A	4,760,000	N/A	4,760,000
Outstanding at the end of the	N/A	4,760,000	N/A	4,760,000
Exercisable at the end of the	N/A	None	N/A	None

The rights at 31 December 2007 have no exercise price and a weighted average contractual life of 1.5 years (2006: 2.5 years).

During the financial year, no rights vested.

Note 6 Auditors' Remuneration

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	60,600	29,000	60,600	29,000
— taxation services	32,700	11,806	32,700	11,811
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	60,677	13,205	-	-

Note 7 Earnings per Share

	Consolidated Group 2007 $	Consolidated Group 2006 $
(a) Reconciliation of earnings to profit or loss		
Loss		
Earnings used to calculate basic EPS	(3,361,971)	(2,047,615)
Earnings used in the calculation of dilutive EPS	(3,361,971)	(2,047,615)
	No.	**No.**
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	92,124,977	42,467,192
Weighted average number of options outstanding	51,962,500	8,451,240
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	144,087,477	50,918,432

Note 8 Cash and Cash Equivalents

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Cash at bank and in hand	224,607	734,829	116,001	266,445
Short-term bank deposits	1,630,106	4,050,000	1,630,106	4,050,000
	1,854,713	4,784,829	1,746,107	4,316,445

The effective interest rate on short-term bank deposits was 6.6% (2007: 6.1%).

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
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	1,854,713	4,784,829	1,746,107	4,316,445
	1,854,713	4,784,829	1,746,107	4,316,445

Note 9 Trade and Other Receivables

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
CURRENT				
Trade receivables	214,478	112,712	-	-
Provision for impairment of receivables	-	-	-	-
	214,478	112,712	-	-
Other receivables	14,178	-	-	-
Amounts receivable from:				
— key management personnel	100,000	-	100,000	-
— GST Receivables	21,723	-	21,723	-
	350,379	112,712	121,723	-
NON-CURRENT				
Amounts receivable from:				
— wholly-owned entities	-	-	22,526,696	12,577,634
	-	-	22,526,696	12,577,634

Note 10 Investments Accounted for Using the Equity Method

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Associated companies	10(a)	6,308,229	3,130,786	-	-

Interests are held in the following associated unincorporated entities

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest 2007 %	Ownership Interest 2006 %	Carrying Amount of Investment 2007 $	Carrying Amount of Investment 2006 $
Unlisted:							
Turner Bayou, LLC	Oil & Gas exploration & drilling	United States of America	Ordinary	80.80%	80.80%	5,784,096	3,130,786
Avoyelles Energy, LLC	Oil & Gas exploration & drilling	United States of America	Ordinary	52%	0.00%	524,133	-
						6,308,229	3,130,786

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
(a) **Movements during the Year in Equity Accounted Investments in Associated unincorporated entities**					
Balance at beginning of the financial year		3,130,786	-	-	-
Add: New investments during the year		3,196,167	3,429,064	-	-
Share of associated company's loss after income tax	10(a)	(18,724)	(298,278)	-	-
		-	-	-	-
Balance at end of the financial year		6,308,229	3,130,786	-	-
(a) **Equity accounted losses of associates are broken down as follows:**					
Share of associates loss before income tax expense		(18,724)	(298,278)	-	-
Share of associate's income tax expense		-	-	-	-
Share of associates loss after income tax		(18,724)	(298,278)	-	-
(b) **Summarised Presentation of Aggregate Assets, Liabilities Performance of Associates**					
Current assets		164,566	720,715	-	-
Non-current assets		7,909,489	4,231,359	-	-
Total assets		8,074,055	4,952,074	-	-
Current liabilities		199,146	289,084	-	-
Non-current liabilities		-	5,032,146	-	-
Total liabilities		199,146	5,321,230	-	-
Net assets		7,874,909	(369,156)	-	-
Revenues		-	-	-	-
Loss after income tax of associates		35,298	369,156	-	-

(c) The reporting date of the associated companies is 31 December.

Note 11 Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
Parent Entity:		2007	2006
Pryme Oil and Gas Limited	Australia	-	-
Subsidiaries of Pryme Oil and Gas Limited :			
Pryme Oil and Gas Inc.	United States of America	100%	100%
Pryme Energy, Inc	United States of America	100%	100%

* Percentage of voting power is in proportion to ownership

(b) **Acquisition of Controlled Entities**

In April 2007 the parent entity established a subsidiary, Pryme Energy, Inc., with an initial investment of US$1.

Note 12 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
PLANT AND EQUIPMENT				
Office equipment:				
At cost	9,262	6,503	9,262	7,763
Accumulated amortisation	(3,436)	-	(3,436)	(1,260)
	5,826	6,503	5,826	6,503

(a) **Movements in Carrying Amounts**
Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Office Equipment $	Total $
Consolidated Group:		
Balance at 1 January 2007	6,503	6,503
Additions	1,499	1,499
Disposals	-	-
Depreciation expense	(2,176)	(2,176)
Balance at 31 December 2007	5,826	5,826
Balance at 1 January 2006	-	-
Additions	7,763	7,763
Disposals	-	-
Depreciation expense	(1,260)	(1,260)
Balance at 31 December 2006	6,503	6,503
Parent Entity:		
Balance at 1 January 2007	6,503	6,503
Additions	1,499	1,499
Disposals		-
Depreciation expense	(2,176)	(2,176)
Balance at 31 December 2007	5,826	5,826
Balance at 1 January 2006	-	-
Additions	7,763	7,763
Disposals	-	-
Depreciation expense	(1,260)	(1,260)
Balance at 31 December 2007	6,503	6,503

Note 13 Intangible Assets

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
Formation costs				
Cost	1,077	1,077	1,077	1,077
Accumulated amortisation	(1,077)	-	(1,077)	-
Net carrying value	-	1,077	-	1,077

Note 14 Working Interest

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Exploration expenditure capitalised	11,262,436	7,385,404	-	-
Movement during the year:				
Opening balance at the beginning of the year	7,385,404	-	-	-
Add: Expenditure incurred during the year	4,988,630	7,724,900	-	-
Less: Depletion and amounts written off	(647,671)	(339,496)	-	-
Closing balance at the end of the year	11,726,363	7,385,404	-	-

Recoverability of the carrying amount of exploration asset is dependent upon the successful exploration and the sale of oil and gas.

Note 15 Trade and Other Payables

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Current				
Other payables and accrued expenses	1,115,634	439,696	187,669	79,257

Note 16 Issued Capital

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
89,504,029 (2006: 70,272,363) fully paid ordinary shares	23,303,352	16,373,852	23,303,352	16,373,852
Capital raising costs	(1,794,667)	(1,421,119)	(1,794,667)	(1,421,119)
	21,508,685	14,952,733	21,508,685	14,952,733

(a) **Ordinary Shares**	Consolidated Group 2007 No.	Consolidated Group 2006 No.	Parent Entity 2007 No.	Parent Entity 2006 No.
At the beginning of reporting period	70,272,363	-	70,272,363	-
(i) Shares issued during year				
— 1 December 2005	-	10,100,000	-	10,100,000
— 30 January 2006	-	349,750	-	349,750
— 20 February 2006	-	287,638	-	287,638
— 9 March 2006	-	1,312,500	-	1,312,500
— 18 April 2006	-	550,113	-	550,113
— 18 April 2006	-	25,959,910	-	25,959,910
— 19 April 2006	-	3,300,000	-	3,300,000
— 20 April 2006	-	811,000	-	811,000
— 26 April 2006	-	4,500,000	-	4,500,000
— 3 May 2006	-	475,000	-	475,000
— 3 May 2006	-	1,750,000	-	1,750,000
— 3 May 2006	-	1,494,090	-	1,494,090
— 30 June 2006	-	1,180,363	-	1,180,363
— 5 July 2006	-	2,667,000	-	2,667,000
— 14 September 2006	-	1,500,000	-	1,500,000
— 15 September 2006	-	4,750,000	-	4,750,000
— 22 September 2006	-	5,500,000	-	5,500,000
— 29 September 2006	-	325,000	-	325,000
— 3 October 2006	-	1,500,000	-	1,500,000
— 12 October 2006	-	525,000	-	525,000
— 20 October 2006	-	225,000	-	225,000
— 8 November 2006	-	1,000,000	-	1,000,000
— 29 December 2006*	-	200,000	-	200,000
— 27 April 2007	6,666,666	-	6,666,666	-
— 22 May 2007	62,500	-	62,500	-
— 30 July 2007	50,000	-	50,000	-
— 15 October 2007	200,000	-	200,000	-
— 22 October 2007	11,562,500	-	11,562,500	-
— 7 November 2007	200,000	-	200,000	-
— 7 December 2007	500,000	-	500,000	-
(ii) Shares lapsed during the year - 1 January 2007	(10,000)	-	(10,000)	-
At reporting date	89,504,029	70,262,363	89,504,029	70,262,363

* Monies for these shares were receipted on 29 December 2006 and shares were issued on 4 January 2007.

(ii) Partly paid shares issued during the year
During the 2006, 10,000 partly paid shares were issued at a price of $0.04 per share. These subsequently lapsed.

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.

(b) **Options**

	Consolidated Group		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
20 cent Options issued:				
At the beginning of the period	4,475,000	-	4,475,000	-
— 27 July 2006	-	5,000,000	-	5,000,000
— 20 April 2007	2,618,000	-	2,618,000	-
Less:		-	-	
20 cent Options exercised:				
— 29 September 2006	-	(325,000)	-	(325,000)
— 29 December 2006	-	(200,000)	-	(200,000)
— 28 February 2007	(250,000)	-	(250,000)	-
— 15 October 2007	(200,000)	-	(200,000)	-
— 7 November 2007	(200,000)	-	(200,000)	-
— 7 December 2007	(500,000)	-	(500,000)	-
Total 20 cent Options	5,943,000	4,475,000	5,943,000	4,475,000
40 cent Options issued:				
At the beginning of the period	36,354,502	-	36,354,502	-
— 20 September 2006	-	13,000,000	-	13,000,000
— 16 October 2006	-	674,990	-	674,990
— 12 December 2006	-	674,990	-	674,990
— 12 December 2006	-	17,328,974	-	17,328,974
— 15 December 2006	-	2,000,000	-	2,000,000
— 27 December 2006	-	2,675,548	-	2,675,548
— 28 February 2007	(461)	-		-
— 27 April 2007	4,083,333	-	4,083,333	-
— 22 May 2007	150,000	-	150,000	-
— 9 July 2007	900,000	-	900,000	-
Total 40 cent Options	41,487,374	36,354,502	41,487,835	36,354,502
60 cent Options issued:				
At the beginning of the period	-	-	-	-
— 9 July 2007	7,500,000	-	7,500,000	-
— 31 December 2007*	(7,500,000)	-	(7,500,000)	-
Total 60 cent Options	-	-	-	-
Total options at reporting date	47,430,374	40,829,502	47,430,835	40,829,502

* Options since lapsed. Refer Note 5(d).

Note 17 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 options under the Directors Incentive Option Plan.

Note 18 Capital and Leasing Commitments

	Consolidated Group		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Capital expenditure commitments contracted for:				
Expenditure on Working Interest	379,334	3,433,622	-	-
Payable:				
— not later than 12 months	379,334	3,433,622	-	-
— between 12 months and 5 years	-	-	-	-
— greater than 5 years	-	-	-	-
	379,334	3,433,622	-	-

Note 19 Contingent Liabilities and Contingent Assets

There are no contingent liabilities or contingent assets as at 31 December 2007 (2006: nil)

Note 20 Segment Reporting

Primary Reporting — Geographical Segments

	Australia		United States of America		Elimination		Total	
	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
Income	673,578	392,526	1,564,346	1,016,629	(539,628)	(355,767)	1,698,296	1,053,388
Depletion, depreciation & amortisation	3,253	1,260	647,672	339,496	-	-	650,925	340,756
Segment results	(1,328,951)	(832,884)	(3,484,395)	(1,845,118)	1,836,061	630,387	(2,977,285)	(2,047,615)
Assets	24,399,996	16,901,773	17,908,397	11,112,800	(22,526,810)	(12,577,748)	19,781,583	15,436,825
Liabilities	22,681,530	79,257	663,701	12,866,882	(22,229,597)	(12,506,443)	1,115,634	439,696

Primary Reporting — Business Segments

The consolidated group operates predominantly in the exploration and development for production of oil and gas and is therefore considered to be under one busines segment.

Accounting Policies

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 working interest and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual 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.

Note 21 Cash Flow Information

	Consolidated Group		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
(a) **Reconciliation of Cash Flow from Operations with Loss after Income Tax**				
Loss after income tax	(3,361,971)	(2,047,615)	(1,328,950)	(832,884)
Non-cash flows in the loss:				
Depreciation, depletion and amortisation	650,924	340,756	3,253	1,260
Share options expensed	2,049,656	1,073,041	861,200	430,600
Movement in foreign currency reserve	(1,688,443)	(610,655)	-	-
Share of associated companies net loss after income tax and dividends	18,724	298,278	-	-
Changes in assets and liabilities:				
(Increase)/decrease in trade and term	(100,689)	(112,712)	(21,723)	
(Increase)/decrease in prepayments	(21,464)	(15,514)		
Increase/(decrease) in trade payables and	675,938	439,696	108,410	79,257
Cash flow from operations	(1,777,325)	(634,725)	(377,810)	(321,767)

(b) **Credit Standby Arrangements with Banks**

There are no credit or standby arrangements with financiers as at 31 December 2007 (2006: nil)

Note 22 Events After the Balance Sheet Date

(a) On 25 January 2008, the company completed a placement of 18,800,000 fully paid ordinary shares in the capital of Pryme at $0.35 per share to raise $6.58 million, subject to shareholder approval.

(b) On 29 January 2008 George Lloyd was appointed as non executive director and chairman of the company. Philip Judge retired as a director on the same date.

(c) On 17 December 2007, the Company and its joint venture partners entered into an agreement to sell the Condor prospect mineral leases. The Company retained rights to future overriding royalties in respect of the mineral leases. The sale closed on 13 February 2008 and the Company received net proceeds of US$792,926 for their interest in the sale. The sale and the resultant gain was recorded after the year end in accordance with full cost accounting and the net proceeds reduced the oil and gas properties not subject to depletion, depreciation and amortisation.

(d) On 6 July 2007, the shareholders approved the grant of 7,500,000 options under the Directors Incentive Option Plan to directors John Dickinson, Justin Pettett and Ryan Messer subject to achievement of certain performance targets. These options had a $0.60 exercise price and an expiry date of 31 December 2009. However, as announced to the ASX on 28 February 2008, the Directors advised the Board that they had voluntarily relinquished their options so that these options lapsed effective 31 December 2007.

(e) The financial report was authorised for issue on 29 February 2008 by the board of directors.

Note 23 Related Party Transactions

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:

(a) **Ultimate Parent Company**
There is no ultimate parent entity

(b) **Associated Unincorporated Entities**
Refer to Note 10

(d) **Key Management Personnel**
Refer to Note 5

(e) **Wholly-owned subsidiary**
Refer to Note 9 for amounts receivable from wholly-owned subsidiaries. During the year an amount of $9,949,062 was loaned from Pryme Oil and Gas Limited to the Wholly-owned subsidiaries. (2006:$12,577,748). The loan is repayable in Australian dollars, there is no interest and no set terms of repayment. The loan is in Australian dollars.

Note 24 Financial Instruments

(a) **Financial Risk Management**
The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares, and derivatives.

The main purpose of non-derivative financial instruments is to raise finance for group operations. Derivatives are used by the group for hedging purposes. Such instruments include forward exchange and currency option contracts and interest rate swap agreements. The group does not speculate in the trading of derivative instruments.

(i) **Treasury Risk Management**
A finance committee consisting of senior executives of the group meet on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii) **Financial Risks**
The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk
There is no exposure to interest rate risk as there is no debt owing.

Foreign currency risk
The group is 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 are maintained for future expenditure on Working Interest.

Credit risk
The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

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

Price risk
The consolidated 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.

(b) **Financial Instruments**

(i) **Interest Rate Risk**

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		**Floating Interest Rate $**		**Non-interest Bearing $**		**Total $**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Financial Assets:								
Cash and cash	6.60%	6.10%	1,854,713	4,784,829			1,854,713	4,784,829
Receivables			-	-	350,379	112,712	350,379	112,712
Total Financial			1,854,713	4,784,829	350,379	112,712	2,205,092	4,897,541
Financial								
Trade and sundry payables			1,115,634	439,696			1,115,634	439,696
Total Financial Liabilities			1,115,634	439,696	-	-	1,115,634	439,696

(ii) **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.

— 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.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

Note 25 Company Details

The registered office and the principal place of business of the company is:
Pryme Oil and Gas Limited
Level 7, 320 Adelaide Street
Brisbane QLD 4000

The principal place of business of the wholly-owned subsidiaries is:
Pryme Oil and Gas Inc. and Pryme Energy, Inc.
1001 Texas Ave., Suite 1400 Houston
Texas 77002, United States of America

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Pryme Oil and Gas Limited (Pryme):

   (a) the Financial Statements and Notes as set out on pages 19 to 39 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's financial position as at 31 December 2007 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 7 to 17 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 2007.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland.
29 February 2008.

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRYME OIL AND GAS LIMITED & CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying financial report of Pryme Oil and Gas Limited (the company) and Pryme Oil and Gas Limited & Controlled Entities (the consolidated entity), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: "Presentation of Financial Statements", that compliance with the Australian equivalents to International Financial Reporting Standards (AIFRSs) ensures that the financial report, comprising the financial statements and notes, complies with AIFRSs.

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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors Pryme Oil and Gas Limited on 27 February 2008, would be in the same terms if provided to the directors as at the date of this auditor's report.

Moore Stephens (Brisbane) & Partners ABN 28 102 334 945
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Auditor's Opinion

In our opinion:

(a) the financial report of Pryme Oil and Gas Limited and Pryme Oil and Gas Limited & Controlled Entities is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their 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*.

Moore Stephens

MOORE STEPHENS

M. J McDonald
Partner

Brisbane, 29 February. 2008

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