pryme
OIL AND GAS

2006 **ANNUAL REPORT**

Pryme's Mission

Pryme's mission is to seek out and evaluate investment opportunities in conventional oil, natural gas and selected unconventional shale and coalbed methane projects in the United States. The directors utilise their collective experience to rigorously assess business investment opportunities, ensuring for shareholders that such ventures are properly evaluated and professionally managed.

Broadly, the Pryme strategy is to:

- have a near-term focus on the U.S. in Louisiana and the Gulf States including Texas; longer-term focus on North America;
- apply a disciplined approach to project selection in order to manage cost of capital;
- leverage on-the-ground experience to ensure access to favourable projects;
- structure win-win partnerships to seize best opportunities; and
- leverage specialised knowledge in drilling, well completions and production operations to maintain competitive advantage in the U.S..

Why the USA?

Prices

The U.S. uses one quarter of the world's oil supply, yet holds less than 3% of the world's oil reserves. By operating in the U.S., Pryme can take advantage of the realities of today's very high global energy consumption and resulting high oil and gas prices.

Pryme can provide the Australian investor with access to U.S. oil and natural gas prices that are equivalent to A$65/Bbl oil and A$8/GJ natural gas, based on US$50/Bbl oil and US$6/MMBtu gas. The oil price differential includes Pryme's much lower cost to produce each barrel and get it to market. The absolute natural gas price is in stark contrast to market prices in Australia for this same commodity

Resources

Hydrocarbon resources that remain for development in the U.S. and Canada consist of two general categories:

- objectives that are "exploratory" or "wildcat" by their nature; and
- "engineering plays" with little reservoir risk in such categories as lower-permeability sandstones, coal bed methane, gassy organic shales, and "dead" oil in place.

These resources are relatively widespread in North America, but they all require specialised knowledge in earth science, drilling, well completions and production operations. Pryme is fortunate to have extensive relationships within the community of U.S. oil and gas operators such that Pryme's "deal flow" consists of both of these risk categories.

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Glossary

Bbls	Barrels of oil
Bbls/day	Barrels (of oil) per day
Bcf	Billion Cubic Feet
Btu	British thermal unit (BTU or Btu) is a unit of energy used in North America and is defined as the amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
GJ	A Gigajoule is a unit of energy
Mcf	Million Cubic Feet
MMBtu	Represents one million (1,000,000) Btu
NAPE	Formerly North American Prospect Expo
Ohms (Ohmmeters)	Measure of resistivity to electric current
psig	Pounds per square inch gauge
Tcf	Trillion Cubic Feet
3.28 feet	Equals 1 metre

Chairman's letter

Dear Pryme Shareholder

Following a successful 2006 – including admission to the ASX in April – all of us at Pryme are focused on the months ahead as our projects are expected to transition to earnings. We are setting the stage for the planned, systematic approach to our oil and gas resource development that is described in our shareholder reports and ASX announcements.

While revenues from delineation and development drilling in LaSalle Parish continue as planned, with a bit of luck Pryme secured the "Raven" project located in a rich gas and condensate fairway. No 3-D seismic was required nor any equivalent time-consuming earth science preparation; just straightforward drilling and completions where each well unit penetrates hydrocarbons at virgin pressures. While a blind hog can find an acorn every now and then, we agree with someone who once said: *"...luck is what happens when preparation meets opportunity..."!*

Unlike companies working in resource plays such as "tight gas", "tight oil", "dead oil" and other reservoirs that abound in the Rocky Mountains, Pryme's focus is to develop conventional oil and natural gas resources from typically high-permeability, highly saturated, virgin-pressure reservoirs. Consequently, our oil and gas wells will usually tolerate quite low product prices before their economic limit is reached. Pryme's natural gas objectives will remain economic until approximately US$2.25/MMBtu. Our oil reservoirs can tolerate approximately US$15/Bbl prices at the field level.

In contrast to our Raven, Kestrel, Turner Bayou and Condor conventional reservoir projects, tight gas sandstones in the Rockies come to mind. One well drilled to a Pryme objective in Louisiana will typically drain a square mile or more of reservoir. By last reckoning, in some Rockies basins it is necessary to drill at least 20 wells to effectively drain an equivalent reservoir area. Studies show that such gas has an economic limit of approximately US$4/MMBtu. Ultimate recoveries per square mile are generally competitive, except for the much lower capital cost to develop Louisiana resources and the decades longer it takes to produce Rockies low-flow natural gas, which brings in to question the time value of money. It is no coincidence that last October, when natural gas prices in the U.S. were inordinately below $4/MMBtu for that month, there was a derailment of many drilling decisions in the Rockies.

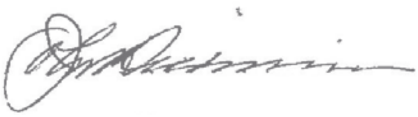
Beyond that, unlike many other Australian junior exploration and development companies, our focus is not divided between and among several U.S. states but instead is only on Louisiana. In addition, in that part of the U.S., our oil and gas development activities are absent the extreme winter weather conditions that further characterise the Rockies.

Without a doubt, the fundings received from our shareholders have enhanced Pryme's deal flow. Since timing is everything in this business, being able to leverage from Pryme's strengthening market capitalization has been a very pleasant surprise in an industry setting where there are more drilling dollars than there are good projects in which to put them. Justin Pettett's analysis on how this phenomenon impacts Pryme is set out in the Managing Director's Report.

I would like to acknowledge my fellow directors Mr Justin Pettett, Mr Ryan Messer, Mr Ananda Kathiravelu and Mr Philip Judge as well the Advisory Board Members Mr Donald Ellison, Mr James Stewart and Mr Craig Sceroler for their continued support and contribution to the operations of Pryme. It is a privilege to work with a team comprised of both talent and drive and I thank them for their commitment to Pryme's performance. Finally, I can confirm to you that Pryme and all its officers endorse best practice governance. In this connection, access to our newly establish corporate governance website is for the benefit of all Pryme shareholders.

Those of us at Pryme are somewhat obsessed with exponential growth and we are tenaciously working to attain it for our investors. On behalf of the Board, I would like to thank Pryme's shareholders for their continued support and I look forward to seeing as many of you as possible this year.

Yours sincerely



John Dickinson
Chairman

Managing Director's Report

Dear Shareholder

It gives me great pleasure to report to you as your managing director in this, our inaugural annual report. The 2006 year ran like clockwork following the successful quotation of Pryme shares on the ASX on 21 April 2006. From day one, Pryme has traded at a premium to our listing price of A$0.20 and peaking in excess of A$1.00 per share in July 2006. The past nine months have been extremely busy for Pryme as we have endeavoured to lay a very good foundation for real growth in 2007.

Pryme is a producer of oil and therefore has regular, systematic monthly income from its LaSalle Parish Project in central Louisiana. This aspect of the plan was fundamental to our initial strategy. LaSalle Parish has proven to be a consistent, low-maintenance earner for Pryme, thereby differentiating us from many other junior and even some medium sized ASX-listed oil and gas explorers.

Key highlights of Pryme's exploration activities include:

- Securing a 52% working interest in a 50,000 acre 3-D seismic project named Turner Bayou located in the prolific Frio, Wilcox and Tuscaloosa trends in south central Louisiana. This project is progressing well with the recording and processing of data having started in early February. Prospective reserves in this project tip close to 78 BCF net to Pryme, unadjusted for risk.
- Signing a joint venture agreement with the Wave Exploration Group, headed by two successful and experienced geoscientists, Kirk Barrell and Jerry Perret. Pryme is currently funding the acquisition of mineral acreage, plus 2-D and 3-D seismic data for the first three projects Kestrel, Raven and Condor.

Other important developments are:

- Kestrel is fully leased and currently being marketed to third parties.
- Raven is fully syndicated with Pryme retaining a 40% working interest and is being expanded in size through further leasing.
- Condor is currently being leased in a highly competitive block of acreage.
- Prospective reserves from these three projects exceed 123Bcf in total.

Strategically, the jewel in the crown for Pryme during the year has been the relationships developed with exceptionally talented and unflappable teams of geologists, engineers and land men on the ground in the United States. With the board of directors' experience in Louisiana over the last six years, Pryme is now a much more mature organisation than a new ASX-listed entity might otherwise suggest. From a financial standpoint, the highlight has been the dependable monthly cash flow from the LaSalle Parish Project that nets Pryme approximately A$1,500,000 per annum from oil produced and sold to Shell Trading U.S.

Through careful diversification between oil and natural gas projects, Pryme has been able to reap the rewards of high oil prices throughout 2006, receiving an average US$65.48 per barrel for its oil sold, whilst natural gas prices have been relatively volatile for all industry players over the past 12 months. The board of Pryme is bullish on oil prices remaining high in the long term as the fundamentals of world oil supply and demand remain unchanged.

Negative impacts experienced in 2006 have been delays due to bad weather and the time to secure service and supply companies in order to complete various field tasks for Pryme. Whist little can be done to control the weather the board, through shareholder approval in December 2006, is addressing the service and supply problem. One step has been the signing of a five year exclusive agreement with a drilling contractor out of Jena Louisiana to drill wells for Pryme on an as-needed basis.

When Pryme first acquired the working interest in the LaSalle Parish Project, it contained 21 producing wells covering six oil fields. Since that time, Pryme has participated in the development/step-out drilling of four more wells in three of these fields. The following points highlight the success of all four of these wells:

- The Shirley SU118 No.2 was drilled in June and is currently producing 23 barrels of oil per day on a 15/64th choke which is typically a very low rate for this type of well. We continue to monitor the progress of this well with a plan to increase the choke size and overall daily production in the coming months.
- The Coleman No.7 was drilled in September and is currently flowing 65 Bbls/day, steady- state.
- The Northwest Rogers No.16 and No.17 were drilled in December of 2006 and are being completed for initial production.

With the addition of these wells, the current number of wells will be 25, with three more development/step-out wells scheduled to be drilled early in 2007.

Moving forward, Pryme intends to continue to strengthen its performance by dedicating its funds towards its

Managing Director's Report

exploration projects Turner Bayou, Raven, Kestrel and Condor. In addition, by using earth science such as 2-D and 3-D seismic and correlative well data models, Pryme expects to mitigate significantly the risk of drilling dry holes. To complement its existing exploration projects, Pryme will focus on deeper, larger oil and gas targets which, if successful, will have a positive impact on Pryme's share price.

The Raven and Turner Bayou Projects remain Pryme's "company maker" objectives (possessing the most exploration "upside" with the lowest risk) with the evaluating of Turner 3-D data continuing through March and April 2007 and a drilling program scheduled to begin in June for both Turner and Raven. The Board anticipates that numerous exploration targets will be identified at Turner from the 3-D seismic data. Several drillable targets have already been identified and confirmed through the evaluation of the 2-D seismic that Pryme purchased covering the Turner block.

Pryme's joint venture with Wave Exploration is running smoothly as described above. Pryme has retained a 40% working interest in Raven project, drilling in the prolific Cotton Valley trend in northern Louisiana. Raven has a very favorable "risk-to-reward" ratio that characterises this natural gas province. That is to say - relatively low risk with a fairly predictable outcome in terms of gas reserves per well drilled. The Cotton Valley formation is an old sandy beach front that is unusually large in terms of its volume, covering miles and miles of deposition extending over northern Louisiana and East Texas. It is mostly saturated with sweet natural gas and condensate, with reserves and production based on the permeability of the reservoir that is penetrated by each well. The 10,000 feet depth of the wells aren't cheap to drill and complete, but the important reserves obtained are a perfect low-risk addition to Pryme's Balance Sheet. Sixty percent of the working interest is held and operated by an experienced, highly successful local operator, Nelson Energy of Shreveport, Louisiana.

In addition to furthering its initiatives, Pryme has diligently worked to expand its presence in the equity market, for its shares through increasing its profile in the US. In October 2006, Pryme issued American Depository Receipts (ADRs) equivalents via its sponsor, the Bank of New York. Pryme's loyalty options began trading on the ASX in October 2006 under the ticker code "PYMO". Under a pro-rata offer, Pryme's existing shareholders could subscribe for one option for every three Pryme shares held at an issue price of $0.05 each. This issue was an overwhelming success and during the interval from the date of issue of these options to the writing this report, the value of the options has increased five fold to $0.25 per option, an increase of approximately 500%

The past year also saw the creation of Pryme's Advisory Board, initially made up of three unique individuals with whom Pryme's founders have had extensive relationships spanning many years. Don Ellison, whose knowledge and experience in petroleum engineering is remarkable and extensive; Craig Sceroler's success and knowledge of the geology of the Wilcox Basin and elsewhere in the vast Gulf Coast Embayment is unique; Jay Stewart's connections and know how in the areas of geology and petroleum land are invaluable to Pryme. Each of the Advisory members' credentials are set out in the Directors' Report. I believe that Pryme has some of the best U.S. specialists looking after the interests of Pryme and as such the interests of its shareholders. I would like to acknowledge the hard work and time of each member of the Advisory Board and thank them for their tireless commitment to Pryme.

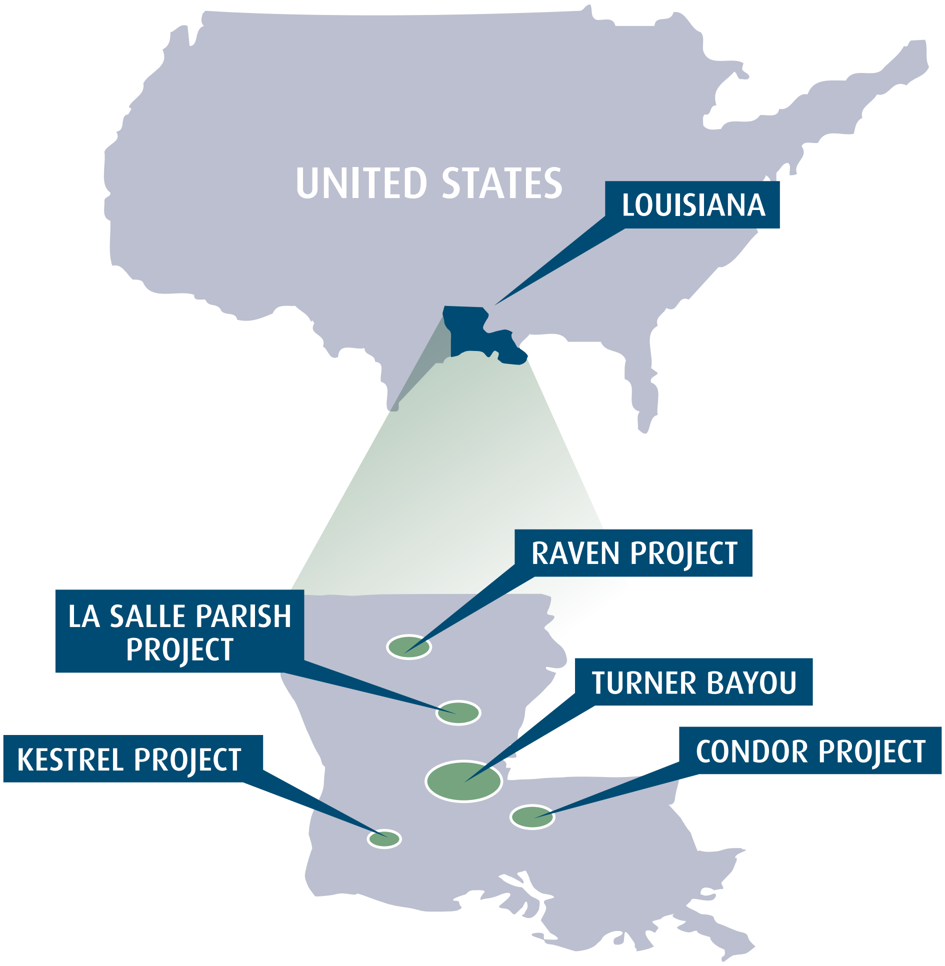
Looking into the future we intend to work hard to grow Pryme's market *cap* and value for its shareholders. We think we can do this exponentially through a focus on very large, deep, high impact wells throughout Louisiana and South Texas. Opportunities in these areas have arisen that give Pryme the option to aggregate them and to participate in them as a lead partner. Pryme is currently evaluating several of these prospects. If it proceeds, Pryme would provide the necessary seed capital but would sub-contract ("farm-out") the well design and drilling to highly capitalized exploration companies. Whilst the drilling of wells such as this is very exciting, the potential outcome is to transfer Pryme from a junior oil and gas explorer and producer to a mid-capped company in a relatively short period of time.

In closing, I would like to take this opportunity to say to all of Pryme's initial public offering investors and brokers who believed in the board and its strategy: "A hearty Thank you" for your support over the past year. Your backing helped position Pryme where it is today, but more importantly, where it is heading in the future. To all the recent additions to Pryme's investment community – institutions and retailers, I thank you too for the vote of confidence in Pryme. The board is devoted to showing you the same commitment and integrity in addition to the capital growth you demand.

It is going to be an interesting 2007. We will keep you all frequently updated on events and all matters regarding Pryme and your shareholdings.

Justin Pettett
Managing Director

Projects



"Our focus is not divided between and among several U.S. states but instead is only on Louisiana."

John Dickinson, Chairman.

LaSalle Parish Project

The LaSalle Parish Project is located in LaSalle Parish in the Wilcox Basin in east-central Louisiana approximately three hours northeast of New Orleans and one hour west of Natchez Mississippi. Pryme purchased its interest in this project on 1 April 2006, as detailed below, which was then comprised of 21 producing oil wells located in six separate fields.

Field Name	Existing Interest	Total Interest	Oil wells
Routh Point Field	10.00%	**13.00%**	9
Northwest Rogers Area	10.00%	**21.50%**	8
Petro Hunt et al Boot Hill Lease	5.00%	**20.20%**	3
Shirley State Area	10.00%	**12.40%**	2
Ward Lease	8.25%	**8.25%**	1
LA Pacific SU65 Ray 2-6SU 56	8.00%	**8.00%**	2

This project continues to be a very consistent producer for Pryme with the drilling of four more development/step-out oil wells during 2006. This takes the total number of producing wells in this project to 25 at the time of writing this report. Many more development/step-out locations are planned to be drilled in 2007.

The first well drilled in 2006 was the Shirley SU118 No.2 in May 2006. The well was successfully drilled to a total depth of 4,400 feet and encountered five feet of the G-1 sand. A core analysis indicated excellent permeability and the completion of the well has begun with the running of well casing. Commercial oil shows were also recovered from two other secondary objectives, the F-1 and the F-4 sands which each contained 4 feet of pay. Marginal oil shows were also recovered from the C-2 sand and the F-2 intervals. The F-1 and the F-4 zones will be kept as Proved, Undeveloped formations for future recompletion up the hole. The well was completed and is currently producing 23 Bbls/day. Belle Oil, the operator, intends to monitor the well over the coming months to look at increasing the production to an optimum rate without harming the formation.

Projects

Ryan Messer flow testing a Spring Branch Field well

The Coleman No.7 development well was the second well to be drilled in September 2006. It was brought into production on 13 December 2006 flowing on its own at rates increasing daily to its current level of approximately 65 Bbls/day with no water on an 11/64th choke and tubing pressure of 125 psig. Most Middle-Wilcox wells do not produce without pumping units or other stimulation.

Pryme expects the rate to remain flat for some time, as is the case with the other Coleman wells in the Routh Point field that produce in a similar manner in their initial phase. The Coleman No.7 was drilled to a depth of 4,500 feet and encountered shows of oil in eight Wilcox sands, the G-4, G-3, F-2, E-3, C-2, B-4, B-2 and A-2 sands. The well is currently flowing from the C-2 formation with three additional sands "up the hole" for future production. The successful completion and production of oil in the Coleman No.7 opens up another development well location to the northeast named the Coleman No.8 in order to test the F-2 sand. The F-2 was found in the Coleman No.7 and it is expected that the No.8 will effectively test the F-2. Pryme has a 13% working interest (9.75% net revenue interest) in the Coleman No.7. The first oil production from the Coleman No.7 was sold at the end of December 2006.

The third and forth wells were drilled in the Northwest Rogers Field in late December. The Northwest Rogers No.16 and No.17 were drilled back-to-back and discovered 24 feet and 22 feet respectively of oil sand in the second Cockfield Sand formation in the Wilcox Basin. The Northwest Rogers No.16 well was successfully drilled to a total depth of 1,614 feet. A dual induction sonic log was run from 1,606 feet to the base of the surface casing at 169 feet and 24 sidewall cores were taken and analysed. The log and the cores revealed 24 feet of excellent oil sand in the "2nd Cockfield" at 1,443 feet – 1,464 feet. There is no oil/water contact and the resistivity in this interval reached six to eight ohms, which is a clear indication of pure hydrocarbons in very permeable sandstone. When a sand package is determined to be "between shale", as in the case with these Northwest Rogers wells, it typically means that the well can achieve higher production rates by preventing oil migration into other "up-dip" sands and water encroachment into the producing zone. The core and log analysis indicate excellent permeability and no signs of depletion from the adjacent producing wells, making the decision to run production casing and complete the well an easy one.

The Northwest Rogers No.17 well was successfully drilled to a total depth of 1,683 feet . A dual induction sonic log was run from 1,683 feet to the base of the surface casing at 169 feet and 24 sidewall cores were taken and analyzed between the interval 1,316 feet through to 1,462 feet. The log and the cores revealed 22 feet of excellent oil sand in the "Second Cockfield" at 1,439 feet – 1,462 feet. There is no oil/water contact and the resistivity in this interval reached nine ohms, which like in the NWR No.16, is a clear indication of pure hydrocarbons in very permeable sandstone. Typical production rates from wells in and near the same field completed in the Third Cockfield Sand have been 25-35 Bbls/day initially, with a sustainable rate of 18-22 Bbls/day over a 30 year period. Pryme has a 21.85% working interest (16.39% net revenue interest) in each well. Both wells are currently producing 20 Bbls/day each.

Logging the NWR No.12 well

Projects

These additional wells and their production will add to Pryme's revenues over the coming months and will be reflected in Pryme's Half Yearly Report for the period ending 30 June 2007. We are very happy with the consistency of this project. It gives the company a firm grounding to launch its aggressive exploration program in 2007. Pryme plans to continue its development drilling program with additional wells to be drilled in the Northwest Rogers and Routh Point Fields during the early part of 2007. These wells will be in the "development well" category.

Turner Bayou 3-D Seismic Project

3D shoot in Turner Bayou Project

Weems Geophysical of Houston, Texas was busy throughout the Christmas period surveying and drilling shot holes in the most difficult areas of this seismic shoot with the recording of data beginning on 6 February 2007. This project has been progressing well with the shoot scheduled to finish at the end of March, with the complete processing and interpretation of the seismic data to begin in April. Even though this project has had some minor setbacks due to weather conditions on site, we are close to hitting our timeframe for completion. Nevertheless these most difficult and time-consuming areas have now been completed. The 80 square-mile (51,200 contiguous acres) objective coverage of the project is located in an onshore trend area that is highly prospective for oil and gas at several intervals between 2,000 feet and 16,000 feet. The southern portion of this area is on trend with major producing deep gas fields, including BP Plc's Port Hudson and Judge Digby fields, which combined have produced almost 1.5 Tcf of natural gas. The main oil and gas objectives at different depths in this project are: the Miocene and Frio sands; the Cockfield/Yegua and Sparta sands; Wilcox sands; Austin Chalk and the Tuscaloosa sands. Prospective reserves are in the vicinity of 150 Bcf of natural gas from all intervals combined not risk adjusted. The initial drilling program is scheduled to begin in June/July of 2007. Pryme is the major shareholder in Turner Bayou holding a 52% working interest in the project.

Wave Exploration Joint Venture

As previously disclosed, the scope of projects being targeted by Wave include large oil and intermediate natural gas reserve targets confirmed with analogue shows or production, and 2-D or 3-D seismic data. Initially, Wave and Pryme have a combined working interest of 100% in each of the prospects until the planned syndication of the working interest pursuant to the funding of each project, after retaining an interest for Pryme in each of them. Three projects to date have been approved for funding by Pryme, and through further evaluation during the leasing process, represent 123 Bcf of prospective reserves in place based on various 3-D seismic and offset or analogue data and production. Pryme classifies the partnership with Wave as a strategic alliance in building the asset value of the company through the aggregation of prospects throughout the prolific oil and gas provinces of Louisiana. A summary of the progress of each Wave Exploration project follows.

Raven Prospect

The Raven Project consists of drilling in the fairway of the prolific Cotton Valley natural gas trend in Lincoln Parish, Louisiana. Pryme has elected to retain an undivided 40% working interest in this project for its own account, which includes a carried working interest, because of the favourable risk-to-reward ratio that characterizes this region. The remaining 60% will be held by the experienced, highly successful local operator, Nelson Energy of Shreveport, Louisiana. Nelson is a family owned business that has established itself as a niche player in the region drilling and producing oil and natural gas from the Cotton Valley formation for the past 30 years. Under the participation agreement with Nelson, Pryme will receive all of its capital spent in funding the acquisition of leases and geophysical data, plus:

- the geology and the geophysical studies required by the project;
- a cash fee;
- an 8% carried working interest in the leases to the casing point in the first two wells; and
- an average 2.80% overriding royalty interest in the entire project.

Each well in the Raven Project is expected to be drilled to a depth of approximately 10,000 feet to penetrate two primary objectives in the Cotton Valley formation, at an estimated cost of US$2.3 million per well payable by the

Projects

Drilling in the Cotton Valley Area

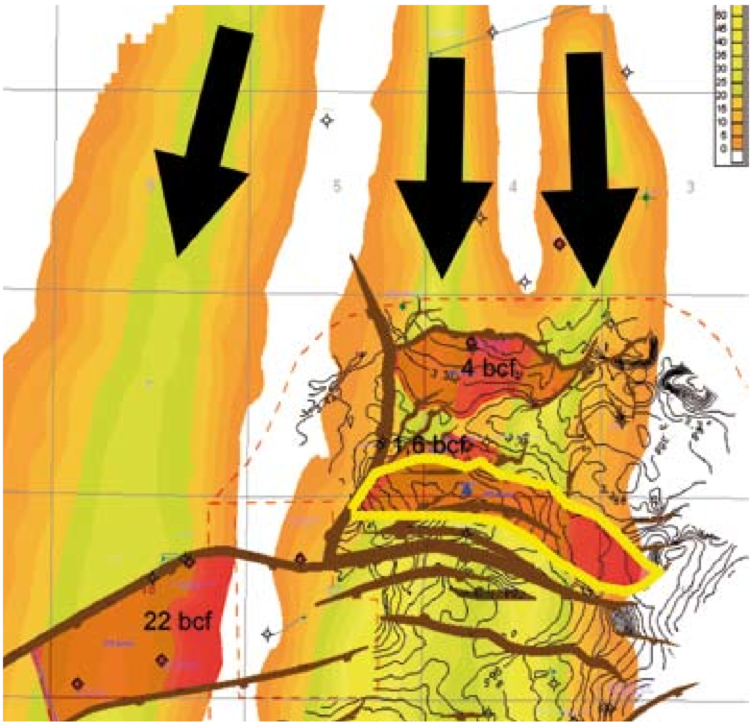
Kestrel Prospect

Kestrel has been fully leased and is currently being marketed to third parties for project funding. Wave Exploration has made several presentations on this project and entered it into the annual NAPE oil and gas conference in Houston in February of 2007, where it was marketed to third parties. The interest in it was considerable. NAPE was founded in 1993 to provide a marketplace for the buying, selling and trading of oil and gas prospects and producing properties via exhibit booths. NAPE brings state-of-the-art prospects and properties from the United States and around the world, advanced technology and energy capital formation all together in one location, creating a pure market place to establish strategic alliances for doing business and initiating purchases and trades.

Kestrel is located in Calcasieu Parish, Louisiana and has a two well potential located on 320 consolidated acres. The project will be drilled to 13,500 feet, targeting four "Hackberry" natural gas and condensate (oil) sands. Two wells should effectively drain this objective if permeabilities are encountered that are analogous to consolidated sandstones found in the Hackberry in this general area. Prospective reserves have been re-calculated on the order of 33 Bcf to the 100% working interest using the current 3D seismic, according to Wave.

100% working interest (US$920,000 net to Pryme's interest.) The project has been classed as an "engineering play" to the extent that more emphasis is given to the drilling and completion techniques and production of the wells, as generally most wells in the area will produce natural gas and a high-quality oil classified as condensate. Expected reserves to be proven from each well drilled, based on analogue production and drainage of wells in the area, is 5.0 Bcf per well in the aggregate from both formations. This would result in approximately US$8,550,000 (US$3,420,000 net to Pryme's interest) in the ground "un-produced gas" value per well using a gas price of US$2.50 per Mcf in situ. On a produced-gas, current net operating income basis the "in-ground" production could be much larger than this current monetary estimate.

Approximately 10 drilling locations have been identified in the project thus far, with the leasing of acreage continuing to expand the project size beyond its original scope.



Updip Kestrel location to existing downdip production

Projects

Condor Prospect

Drill site location for the Condor #1 well

The Condor Prospect is located along the Tuscaloosa Trend in central Louisiana, which in the past 11 years has experienced a resurgence in exploration activity, led by Amoco and now BP Plc. The Condor project area includes multiple Tuscaloosa targets within the Comite Field that have historically produced as much as 100 Bcf of gas. Condor is continuing to be leased in this highly competitive area and Pryme expects to have its leasing completed by June/July of 2007.

This project is defined in two phases. Phase 1 includes assembling leases on two Tuscaloosa prospects with target depths of 17,500 to 18,000 feet. The first location will target multi-zone, "proven undeveloped" reserves. The potential exists to drill further targeting the deeper Tuscaloosa sands that are aggressively being pursued by others on trend. The second location will target a 2D-defined up-dip location to the A6 Sand in an existing well that has produced 43 Bcf to date. Engineering analysis concludes that 20 to 40 Bcf remain in this reservoir. Phase 2 consists of pursuing deeper, exploratory opportunities in the southern portion of the field. The deeper Tuscaloosa sands have barely been explored in this region. The potential exists to test these deeper Tuscaloosa sands in the existing fault blocks and to the south of the field. Currently, a significant amount of drilling is occurring at Morganza Field, Moore Sams, and Judge Digby for these same targets.

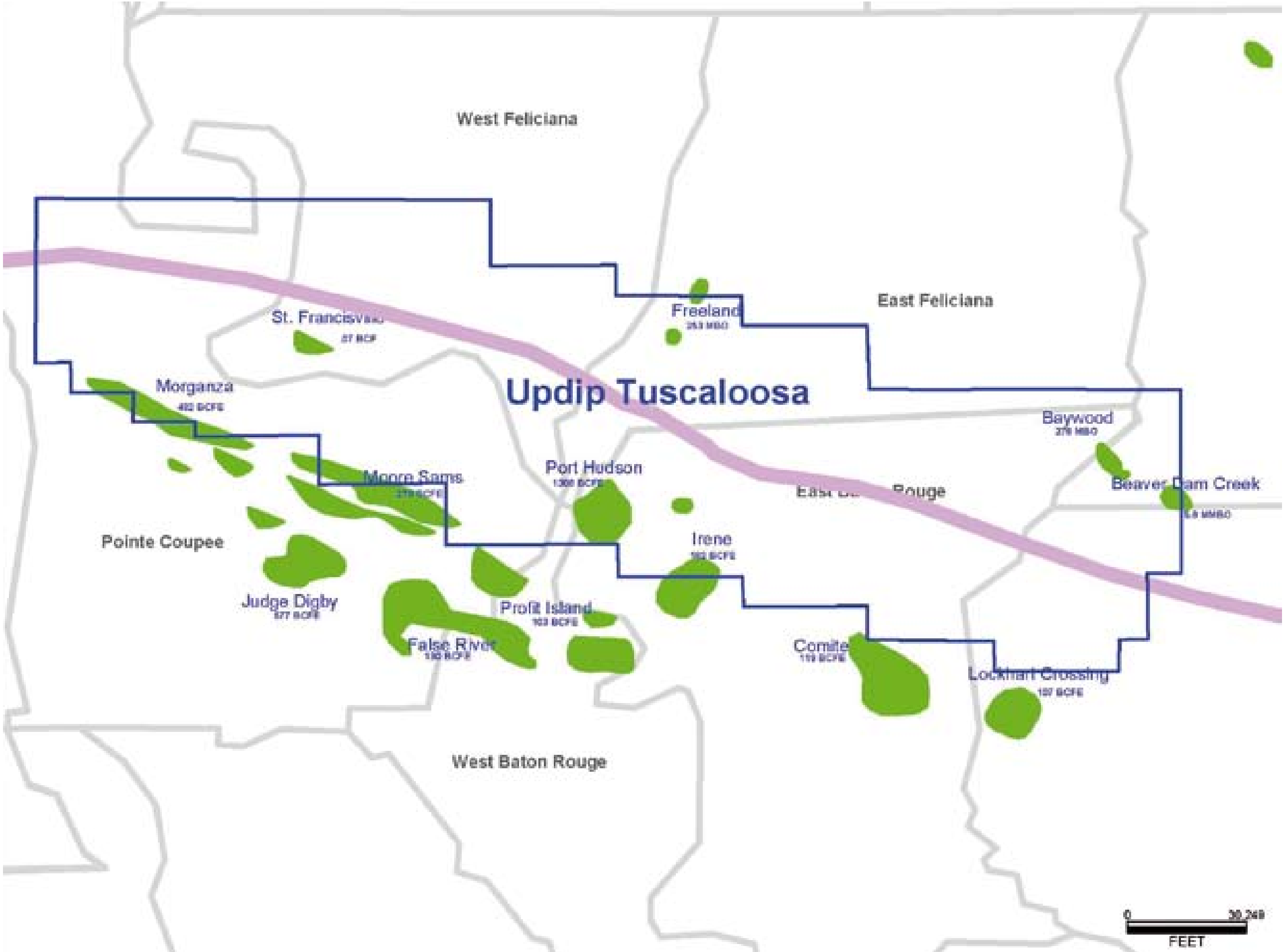
On trend, Judge Digby field has reported significant discoveries in this interval over the past ten years. The deeper Tuscaloosa reservoirs have flowed at rates as high as 80 Mcf of natural gas per day or explained another way US$400,000 in gas revenues per day using a US$5.00 natural gas price.

A very detailed reservoir study was conducted across the field including 2D seismic interpretation, reservoir net pay mapping and both engineering and log analysis evaluation by a third party consultant. The study concludes that 40 to 90 Bcf remain in the existing reservoirs. It is believed that the previous operators failed to produce all of the reserves in the central fault block due to perforating multiple zones simultaneously and not recognizing the lack of contribution from zones that had "sanded-up". This occurs across the trend due to the friable nature of these highly porous and permeable sands. In the early 90's Amoco performed the same type of evaluation on trend at Morganza Field, resulting in additional infill development.

BP drilling the deep Tuscaloosa formation near Condor

Projects

The Future - High Impact Deep Exploration Projects



The prolific Tuscaloosa trend in Louisiana focus of Prymes up-dip Tuscaloosa play

The future for Pryme is certainly one of exploration through the mitigation of risk by adopting and using cutting edge 2D and 3D seismic technology and analog well mapping by some of the most successful geologists and geophysicists in our area. Broadly, Pryme will focus on:

- Building an inventory of very large reserve objective, high impact projects
- Projects being leased and secured by Pryme
- Outsourcing to third parties - in return for carried working interest and/or overriding royalty
- Assuming little or no financial risk
- Locking in the upside from project development
- Projects of size +100 million Bbls and 1 Tcf of natural gas reserves
- Securing two already identified projects

The gulf coast region will remain our focus, in particular the updip Tuscaloosa and lower cretaceous area within the parishes of West Feliciana, East Feliciana, Point Coupee, East Baton Rouge and West Baton Rouge. These parishes are notably the most prolific oil and natural gas provinces in Louisiana, if not the United States.

The category of projects that Pryme is targeting is deep natural gas or condensate, in excess of 15,000 feet in depth that possess prospective reserves in excess of 100 million Bbls or 1 Tcf of natural gas. Pryme will aggregate these projects with its Advisory Board and Partners, with Pryme as the funding partner. Our business model is to outsource ("farm-out") working interests in these projects to larger capitalized companies with commensurate risk profiles. By doing this, Pryme is able to lock-in the upside potential through a carried working interest and an overriding royalty interest and insure against any financial loss or downside by having third parties fund the development.

Corporate Governance Statement

Pryme is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve, Pryme has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. Pryme seeks to follow the best practice recommendations for listed companies to the extent that it is practicable.

Where Pryme's corporate governance practices do not correlate with the practices recommended by the Council, Pryme does not consider it practicable or necessary to implement these principles due to the size and stage of development of its operations.

Set out below are the fundamental corporate governance practices of Pryme.

1. The Board lays solid foundations for management and oversight

Role of the Board

The Board's role is to govern Pryme rather than to manage it. In governing Pryme, the directors must act in the best interests of Pryme as a whole. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a director of Pryme; any candidate must confirm that they have the necessary time to devote to their Company Board position prior to appointment. In addition, non-executive directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of Pryme. It is required to do all things that may be necessary to be done in order to carry out the objectives of Pryme.

The Board is responsible for governing Pryme and for setting the strategic direction of Pryme, including:

- i. oversight of control and accountability systems;
- ii. appointing and removing the:
  - a. Managing Director;
  - b. Chief Financial Officer; and
  - c. Company Secretary;
- iii. input into and final approval of corporate strategy;
- iv. approving the annual operating budget;
- v. approving and monitoring the progress of major capital and operating expenditure;
- vi. monitoring compliance with all legal and regulatory obligations;
- vii. reviewing any risk management system (which may be a series of systems established on a per-project basis) and internal compliance and controls;
- viii. monitoring any Executive Officer's performance; and
- ix. approving and monitoring financial and other reporting to the market, shareholders, employees and other stakeholders.

Given the size and stage of development, Pryme has not established any committees to assist the Board in discharging its functions and therefore the Board is responsible for those duties that are otherwise assumed by nomination and audit and remuneration committees. In this regard, the Board is responsible for:

- i. the appointment, performance and succession planning of all Directors and Executive Officers;
- ii. verifying and safeguarding the integrity of Pryme's financial reporting; and
- iii. determining all the remuneration (quantum and any policy) of all Directors and Executive Officers.

Board responsibilities are set out in the Pryme Board Charter which is available on the Pryme website (under Corporate Governance).

The Board currently holds meetings as may be necessary to address any specific significant matters that may arise. During the year under review, the Board met 16 times and the Board members' attendance record is set out on page 23 of the 2006 Directors' Report

In carrying out its governance role, the main task of the Board is to drive the performance of Pryme. The Board must also ensure that Pryme complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of Pryme.

It is the role of senior management to manage Pryme in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

Corporate Governance Statement

2. The Board is structured to add value

Composition of the Board and details of Directors

Pryme currently has five directors, two of which are executive directors, Mr Justin Pettett, who is the Managing Director and Chief Executive Officer and Mr Ryan Messer who is the Chief Operations Officer. The remaining three directors - Mr John Dickinson (Chairman of the Board), Mr Ananda Kathiravelu and Mr Philip Judge are non-executive directors. Further details about the directors are set out on pages 19 to 20 of the 2006 Directors' Report.

In appointing directors, the Board must ensure that any candidate has the appropriate range of skills, experience and expertise that will best complement Board effectiveness. Pryme recognises the importance of non-executive directors and the external perspective and advice that non-executive directors can offer. It is the approach and attitude of each non-executive director which is critical to determining independence and this must be considered in relation to each director while taking into account all other relevant factors which may include whether the non-executive director:

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

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

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

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

e) has a material contractual relationship with Pryme or other group member other than as a director of Pryme;

f) has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Pryme; and

g) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Pryme.

The Chairman is a non-executive independent director and there is a clear division of responsibility between the Chairman and the Chief Executive Officer. However, the remaining two non-executive directors are substantial shareholders of Pryme and can not be termed as Independent as such. It is the intention of Pryme with time to appoint additional non-executive directors in order to comply with the recommendation that a majority of the Board should be independent; nevertheless all incumbent directors bring an independent judgment to bear in Board deliberations.

Advisory Board

Pryme has engaged a particular group of individuals with vast experience in petroleum engineering, land and geology as its Advisory Board. This Advisory Board is a unique resource to which management can refer matters at any time for their input and professional advice. In addition, the Advisory Board and management meet quarterly to discuss the strategic direction of Pryme and its priorities for the coming 12 months. Further details about the members of the Advisory Board are set out on pages 20 to 21 of the 2006 Directors' Report.

Nomination Committee

Due to the size and nature of operations of Pryme, the Board has not established a separate Nomination Committee. Nomination matters are reviewed and approved by the Board as a whole.

3. The Board promotes ethical and responsible decision making

Confidentiality

In accordance with legal requirements and agreed ethical standards, directors and key executives of Pryme have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

Corporate Governance Statement

Company Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, Pryme has an established Code of Conduct and Ethics (Code) to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This Code governs all Pryme commercial operations and the conduct of directors, employees, consultants, contactors and all other people when they represent Pryme.

A copy of this Code is available on the Pryme website (under Corporate Governance).

Ensuring and monitoring compliance with the Code

The Board, management and all employees of Pryme are committed to implementing this Code of Conduct and Ethics and each individual is accountable for such compliance. A copy of the Code is given to all employees, contractors and relevant personnel, including directors.

Any breach of applicable laws, accepted ethical commercial practices or other aspects of the Code of Conduct and Ethics will result in disciplinary action. Depending on the severity of the breach, such disciplinary action may include reprimand, formal warning, demotion or termination of employment/engagement (as the case may be).

Similar disciplinary action may be taken against any manager who directly approves of such action or has knowledge of the action and does not take appropriate remedial action.

Breach of applicable laws or regulations may also result in prosecution by the appropriate authorities. Pryme will not pay, directly or indirectly, any penalties imposed on any personnel as a result of a breach of law or regulation.

Related Party Transactions

Related party transactions include any financial transaction between a director and Pryme and will be reported in writing to each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

Trading in Pryme Shares

Pryme has adopted a share dealing policy for the directors, employees, consultants and contractors, which is appropriate for a company whose shares are admitted to trading on the ASX, and Pryme will take all reasonable steps to ensure compliance by its directors and any relevant employees. The share dealing policy is part of the Pryme Code of Conduct & Ethics and is summarised as follows:

- consistent with the legal prohibitions on insider trading contained in the Corporations Act, all employees, officers and directors are prohibited from trading in Pryme's securities while in possession of material non – public information; and
- material non-public information is information, which a reasonable person would expect to have a material affect on the price or value of Pryme's securities. Examples may include (but not be restricted to):
    - exogenous events in the financial markets or the oil and gas industry, either of which affect Pryme's business etc;
    - change in international oil and gas prices;
    - results of drilling and/or production testing;
    - the financial results of Pryme and its subsidiary;
    - projections of future earnings or losses;
    - material (more than 5%) changes in Pryme's financial forecasts or expectations;
    - a declaration of a dividend or a decision that a dividend not be declared;
    - the making of a share, option or debt issue and the under or over subscription of that issue;
    - proposed acquisitions, mergers, sales, joint ventures or takeovers;
    - information about Pryme's business plans, investment proposals or asset purchases or sales;
    - regulatory decisions or industrial actions that may affect Pryme's operations;
    - the occurrence of an environmentally related incident;
    - the threat, commencement or settlement of any material litigation or claim;
    - an agreement between Pryme (or a related party or subsidiary) and a Director (or related party of the Director);
    - a change in accounting policy adopted by Pryme;
    - a proposal to change Pryme auditors;
    - changes in senior management; and
    - the health or capacity of any Director.

Corporate Governance Statement

It should be noted that either positive or negative information may be material. An employee, officer or director, whilst in possession of material non-public information, is subject to three restrictions:

- they must not deal in securities affected by information;
- they must not cause or procure anyone else to deal in those securities; and
- they must not communicate the information to any person if they know or ought to know that the other person will use the information, directly or indirectly, for dealings in securities.

Employees, officers and directors are required to advise Pryme Secretary of their intentions prior to undertaking any transaction in Company securities. If an employee, officer or director is considered to possess material non-public information, they will be precluded from making a security transaction until after the time of public release of that information.

Compliance with Legislation affecting Pryme's Operations

Within Australia, Pryme strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, Pryme will abide by local laws in all jurisdictions in which it operates. Where those laws are not as stringent as Pryme's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving or receiving of "gifts", Pryme policy will prevail.

4. The Board safeguards integrity in financial reporting

As required by section 295A of the *Corporations Act,* the Managing Director (in his capacity as that person responsible for the general and overall management of Pryme and that person primarily responsible for financial matters in relation to Pryme) declares:

"That:

- the financial records of Pryme for the reporting period have been properly maintained in accordance with section 286 of the Corporations Act;
- the financial statements and the notes referred to in paragraph 295(3)(b) of the Corporations Act comply with the accounting standards; and
- the financial statements and notes for the reporting period give a true and fair view."

In addition, as required by Recommendation 4.1 of the *ASX Principles*, the Managing Director states:

"That:

- Pryme's reports present a true and fair view, in all material respects, of Pryme's financial condition and operational results and are in accordance with relevant accounting standards."

Audit Committee

In accordance with ASX Listing Rule 12.7, Pryme is not required to establish an Audit Committee and given the size and scale of operations of Pryme, the inception of such a committee is not considered necessary at this point in time. In relation to audit, the Board has policies that were established to protect the integrity of Pryme's financial reporting. The audit policy of the Board includes the requirement to:

(a) oversee the effectiveness of Pryme's accounting and financial policies and controls;

(b) oversee the independence of the external auditors; and

(c) make recommendations to the Board on the appointment of external auditors and reviewing the performance of the external auditors.

5. The Board makes timely and balanced disclosure

Continuous Disclosure

The Board has designated Pryme Managing Director as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

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

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

Such matters are advised to the ASX immediately they are identified as being material. Upon confirmation of receipt from the ASX, Pryme posts all information disclosed in accordance with this policy on Pryme's website in an area accessible by the public.

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The Board has established a written policy for ensuring compliance with ASX Listing Rule disclosure requirements. A copy of the Pryme Continuous Disclosure Policy is available on the Pryme website (under Corporate Governance).

6. The Board respects the rights of shareholders

Shareholder Communication

Pryme respects the rights of its shareholders and to facilitate the effective exercise of those rights, Pryme has established a Shareholder Communications Policy. Pryme is committed to:

- communicating effectively with shareholders through releases to the market via ASX, Pryme's website, information mailed to shareholders and the general meetings of Pryme;
- giving shareholders ready access to balanced and understandable information about Pryme and corporate proposals;
- making it easy for shareholders to participate in general meetings of Pryme; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit, preparation and content of the auditor's report, accounting policies adopted by Pryme in relation to the preparation of the financial report and the independence of the auditor in relation to the conduct of the audit.

Pryme also makes available a telephone number and email address for shareholders to make enquiries of Pryme.

7. The Board recognises and manages risk

Business Risk Management

The Board acknowledges that it is responsible for the overall internal control and risk management framework. Accordingly, the Board has implemented the following control framework:

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

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

Investment appraisal: The Board has set clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements. Capital expenditure and revenue commitments above a certain size will require prior Board approval. Procedures will be established to ensure business transactions are properly authorised and executed.

Attestations by Chief Executive Officer and Chief Financial Officer

In accordance with Recommendation 7.2 of the *ASX Principles*, the Managing Director has stated in writing to the Board:

"That:

- the statement given in accordance with Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Pryme's risk management and internal compliance and control system is operating efficiently and effectively in all material respects."

8. The Board encourages enhanced performance

Performance Review/Evaluation

The Board intends on conducting an evaluation of its performance annually. The Chairman and non-executive directors of the Board are responsible for evaluating the performance of individual directors and of the Board collectively. In case of Pryme, this group of individuals are akin to a Nomination Committee as prescribed by the *ASX Principles*. Presently, this evaluation is conducted internally. The Board's performance is measured against both qualitative and quantitative indicators. The objective of this evaluation will be to identify strengths and weaknesses and provide best practice corporate governance to Pryme. In future years this process may be carried out by an external consultant.

Education and Induction

New directors undergo an induction process in which they are given a full briefing on Pryme. Where possible, this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new directors includes:

- details of the role and responsibilities of a director;
- formal policies on Director appointment as well as conduct and contribution expectations;

Corporate Governance Statement

- details of all relevant legal requirements;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of Pryme;
- a synopsis of the current strategic direction of Pryme including a copy of the current strategic plan and annual budget; and
- a copy of the Constitution of Pryme.

In order to achieve continuing improvement in Board performance, all directors are encouraged to undergo continual professional development.

Independent Professional Advice and access to Pryme information

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

9. The Board remunerates fairly and responsibly

Remuneration Report and Remuneration Policies

In relation to remuneration issues the Board has established a policy to ensure that it remunerates fairly and responsibly. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated directors and employees. The policy is designed for:

(a) decisions in relation to executive and non-executive remuneration policy;

(b) decisions in relation to remuneration packages for executive directors and senior management;

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

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

The Remuneration Report and further details about the Remuneration Policy of Pryme are set out on pages 24 to 31 of the 2006 Directors' Report.

Remuneration Committee

Due to the size and scale of operations of Pryme, the Board has not established a Remuneration Committee. Remuneration matters are reviewed and approved by the Board as a whole.

10. The Board recognises the legitimate interests of stakeholders

The Board has a formal Code of Conduct which ensures that Pryme maintains the highest standards of integrity, honesty and fairness in their dealings with employees, contractors, customers, suppliers, clients, shareholders, regulators, creditors and the community as whole. Details of the Code are set out earlier in this Statement.

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 subsidiary Pryme Oil and Gas Inc (together referred to as the Consolidated Entity) for the financial year ended 31 December 2006 and the Independent Audit Report thereon.

1. Directors

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

(a) John Dickinson - Chairman

Independent Non–Executive Director (Appointed 1 December 2005)

Mr Dickinson graduated from Tulane University with a degree in Business Administration and has 31 years experience in energy sector drilling, completions, production operations and project finance, primarily in the areas of oil, natural gas, coal bed methane resource development, gas gathering, gas compression, gas transmission and project finance of combustion-turbine power plants. He has also been involved in the co-development of four electric power projects in the U.S, integrated with the development of natural gas as fuel. Mr Dickinson has been published several times in industry journals and has recently represented venture capital funds in London, Connecticut and Hong Kong in the investigation of new drilling technologies developed in the U.S.

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

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

Executive Director (Appointed 1 December 2005)

Mr Pettett has worked successfully as a business analyst, broker and Managing Director of medium sized businesses for the past 12 years, the last six in the US oil and natural gas industry. He has widespread industry experience, specialising in oil, natural gas and coal bed methane acquisitions and development and extensive commercial knowledge in financial analysis, business development, investor relations, capital aggregation and financial and administrative management. Mr Pettett also has experience dealing and advising clients in Australia and worldwide on a range of commodities including base, precious metals and energy.

Mr Pettett has broad experience as a public company director with positions in senior management as follows:

- Managing Director, Chief Executive Officer and co-founder of the Sterling Energy Group of companies, North American oil and natural gas operations and portfolio managers;
- Director of Arkoma Wilcox Limited, an Australian public US oil and gas exploration company; and
- Vice-President and Chief Operations Officer of Northern Alliance Energy Inc. the wholly owned subsidiary of Anglo Energy Company Inc., a US-based energy development company.

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

(c) Ryan Messer - Chief Operations Officer

Executive Director (Appointed 1 December 2005)

Mr Messer graduated from the University of Central Florida, with a Bachelor of Business majoring in Marketing and Finance. He has 10 years of experience in international corporate business, the last five years being in the energy sector, managing field operations and assisting in the formation of an evaluation team for prospects. He has been directly involved in the drilling and development of over 124 wells spread across five states throughout North America. His expertise is in the area of project management, research and design, partner relationship development, asset allocation and risk assessment, investment and company management and corporate strategic direction.

Mr Messer is President and co-founder of the Sterling Energy Group of Companies and also holds directorships for the following public and private affiliated companies:

Directors' Report

- Arkoma Wilcox Limited;
- Sterling Energy Group Inc.; and
- Northern Alliance Energy Inc.

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

(d) Ananda Kathiravelu

Non–Executive Director (Appointed 1 December 2005)

Mr Kathiravelu holds a Bachelor of Business and a Graduate Diploma of Applied Finance and Investment. He is also an associate of the Securities Institute of Australia. He has over 15 years experience in the financial services funds management and stockbroking industries. His areas of expertise include corporate advice, capital raising, mergers and acquisitions with primary focus on the small cap and emerging business sectors.

Mr Kathiravelu also holds directorships in the following ASX listed companies:

- First Capital Group Limited (11 December 2001 – current) (Executive Chairman)
- Transit Holdings Limited (listed 18 December 2006) (10 August 2006 – current) (Non-Executive Chairman)

(e) Philip Judge

Non–Executive Director (Appointed 25 September 2006)

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;
- Director of Anglo Energy 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 Secretary

Mr Matthew Fogarty is the Company Secretary of Pryme.

Mr Fogarty is the principal of Fogarty Partners, a Chartered Accounting and Business Advisory practice. He has over 15 years experience in providing tax and business advisory services to small and medium enterprises. In addition to this he has provided company secretarial services to a number of listed and unlisted companies.

Mr Fogarty holds a Bachelor of Business, is a Chartered Accountant, a member of the Tax Institute of Australia and a Registered Tax Agent.

3. Advisory Board

In addition, there is an established Advisory Board which is a resource that management of Pryme can refer matters to at any time for their input and professional advice. Members of the Advisory Board are:

Directors' Report

(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, 2 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 and has 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.

Mr Ellison is the first US citizen to successfully establish a joint venture in 1989 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 Entity 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 Entity'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 Entity appears in the 2006 Annual Report. Other than the official admission to the Australian Securities Exchange Limited of Pryme, in the opinion of the Directors, there were no other significant changes in the state of affairs of the Consolidated Entity.

6. Events Subsequent to Reporting Date

On 4 January 2007, 200,000 options were converted to ordinary fully paid equity shares. These options had an exercise price of 20 cents.

Other than the matter 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

Directors' Report

significantly affect the Consolidated Entity's operations, results or the state of affairs in future financial years.

7. Likely Developments

The Consolidated Entity intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America.

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

8. Environmental Regulations and Performance

The Consolidated Entity has various permits and licenses to operate in the United States of America.

There have been no significant known breaches of the Consolidated Entity's licence or permit conditions. Furthermore, no government agency has notified the Consolidated Entity of any environmental breaches during the period ended 31 December 2006.

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	4,475,000	0.20
30 June 2008	36,354,502	0.40
Total	**40,829,502**	

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 Rights

As at the date of this Report, there were 11,900,000 rights outstanding under the Pryme Directors' Incentive Option Plan. Options will only be granted if Pryme achieves certain performance hurdles as set out on page 26.

As at the date of this Report, there were 4,760,000 rights outstanding under the Pryme Directors' Share Incentive Plan. Rights will only vest if Pryme achieves certain performance hurdles as set out on page 26.

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:

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Date	Number of shares	Exercise Price ($)
29 September 2006	325,000	0.20
4 January 2007	200,000	0.20
Total	525,000	

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	16	16
Justin Pettett	16	16
Ryan Messer	16	16
Ananda Kathiravelu	16	16
Philip Judge	3	3[1]

[1] Prior to his appointment as a director, Mr Judge attended two meetings as an invitee.

There are no committees of the Board currently established and hence no meetings of any such committees have taken place.

12. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2006 are as follows:

Director	Ordinary Shares	Options over Ordinary Shares[1]		Rights to Receive Ordinary Shares[2]	American Depository Receipts
		$ 0.20	**$0.40**		
John Dickinson	1,700,000	3,450,000[5]	566,667	1,380,000	-
Justin Pettett	1,755,000[3]	5,000,000[5]	585,002	2,000,000	-
Ryan Messer	1,700,000	3,450,000[5]	566,667	1,380,000	555[8]
Ananda Kathiravelu	4,727,500	1,303,650[6,7]	1,575,834		-
Philip Judge	4,514,163[4]	413,850[6]	1,504,722		-

[1]Further information on options granted to directors as part of their remuneration is set out on page 26.
[2]Further information on rights granted to directors as part of their remuneration is set out on page 26.
[3] On 9 January 2007, Mr Pettett acquired 20,000 fully-paid ordinary shares on-market.
[4] On 8 January 2007, Mr Judge acquired 51,000 fully-paid ordinary shares on-market.
[5]. Options may be granted before 30 June 2009. For further information, refer to page 26 of the Remuneration Report.
[6] Options expire 30 June 2008.
[7] Options are registered in the name of First Capital Corporate Limited, a related party of the director.
[8] Equivalent to 11,100 ordinary shares.

Other than that stated above in relation to the options, there are no contracts to which the director is a party or under which the director is entitled to a benefit that confer a right for the director to call for shares in Pryme.

Directors' Report

13. Indemnification and Insurance of Officers and Auditors

Directors and secretary 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 2006 or to the date of this Report.

Details of the nature of the liabilities covered and the amount of premium paid in respect of Directors' and Officers' insurance policies are not disclosed as such disclosure is prohibited under the terms of the contracts.

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 were previously engaged to assist Pryme in an accounting capacity, however now only perform 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 Entity or 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 32 and forms a part of the Directors' Report for the year ended 31 December 2006.

15. Proceedings on behalf of the Consolidated Entity

During the year under review and in the interval between the end of the financial year and the date of the report, the Consolidated Entity has made no application of 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 9 of the *ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.*

The period ended 31 December 2006 is Pryme's first reporting period (commencing 1 December 2005 to 31 December 2006). No comparative amounts (to a prior reporting period) are necessary.

Remuneration Policies and Practices

In relation to remuneration issues, 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

Directors' Report

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. Entitlement to Options over Ordinary Shares; and
3. Rights to acquire Ordinary Shares,

therefore representing a mix of fixed and "at-risk" pay and of short, medium and long-term rewards.

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 2006, $127,471 of the fee pool was used.

During the first quarter of 2007, Mr Judge is expected to receive a one-off director's fee of 150,000 options 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 will be in lieu of any fee or salary payable to Mr Judge.

Equity Participation

Non-executive directors participate in the Directors' Incentive Option Plan. Participation of these directors in this Plan is considered appropriate given the 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 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 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 Messrs Dickinson and Kathiravelu the statutory superannuation guarantee contribution. Mr Judge does not receive a monetary payment and as such, Pryme makes no superannuation contribution on his behalf.

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

Executive directors do not receive retirement benefits. There are no termination benefits payable to the executive directors, other than payment of their statutory outstanding annual leave.

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.

Directors' Report

Relationship between Policy and Pryme's Performance - audited

The salary and fees received by directors are not specifically tied to Pryme's performance; however are attributable to individual performance in terms of the executive directors.

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

<table>
<tr><th>Description</th><th>Rationale</th></tr>
<tr><td>Directors Incentive Option Plan (DIOP)

Under this Plan, directors may receive up to a number of options in three tranches depending on the achievement of the hurdles described below. Vested options may 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.

Phase I – LaSalle Parish Project
Phase II – South Central Louisiana 3D seismic play
Performance Period – 1 July 2006 to 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 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.</td><td>This Plan is a medium-term incentive that rewards the directors upon Pryme 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 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.</td></tr>
<tr><td>Directors Share Incentive Plan (DSIP)

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.

Performance Period – 1 July 2006 to 30 June 2009

Hurdle –

Pryme achieving annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the Performance Period.</td><td>This Plan was introduced to acknowledge 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.</td></tr>
</table>

Both the Directors' Incentive Option Plan and Directors' Share Incentive Plan have been designed to have a positive impact on Pryme's performance from this financial year onwards.

Given Pryme's admission to the ASX in April 2006, there is no history of Pryme's performance which can be described at this stage.

REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS		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			
	$	$	$	$	$		$	$	$	%	%
DIRECTORS											
Non-Executive											
JOHN DICKINSON	78,539	-	-	**78,539**	2,492	-	297,114	289,800	**667,945**	87.87	44.48
ANANDA KATHIRAVELU	48,932	-	-	**48,932**	2,454	-	-	-	**51,386**	-	-
PHILIP JUDGE	-	-	-	**-**	-	-	-	-	**-**	-	-
Executive											
JUSTIN PETTETT	124,913	-	-	**124,913**	5,286	-	430,600	420,000	**980,799**	86.73	43.90
Managing Director											
RYAN MESSER	106,325	-	-	**106,325**	3,998	-	297,114	289,800	**697,237**	84.18	42.61
Chief Operations Officer											
TOTAL	**358,709**			**358,709**	**14,230**		**1,024,828**	**999,600**	**2,397,367**		

Directors' Report

FAIR VALUE OF OPTIONS – FACTORS AND ASSUMPTIONS - AUDITED

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

Entitlement Date		Expiry Date	Fair Value per option ($)	Exercise Price ($)	Price of shares on entitlement 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.

The options, if granted, are exercisable between 21 April 2007 and 30 June 2009, upon the satisfaction of those performance hurdles as set out on page 26.

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

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 ($)
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 occurred upon 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 entitlement to options over ordinary shares in Pryme that were granted as compensation to the key management personnel 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 2006
Executive Directors								
Justin Pettett	2006	-	5,000,000[1]	-	-	5,000,000	-	-
Ryan Messer	2006	-	3,450,000[1]	-	-	3,450,000	-	

Directors' Report

(Cont)

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 2006
Non –Executive Directors								
John Dickinson	2006	-	3,450,000[1]	-	-	3,450,000	-	-
Ananda Kathiravelu	2006	-	-	-	-	-	-	-
Philip Judge	2006	-	-	-	-	-	-	-

[1] The entitlement to options arose on 31 July 2006. Options must be granted prior to and have an expiry date of 30 June 2009. The options will be granted in three tranches from 21 April 2007 until 30 June 2009 with an exercise price of $0.20 and a fair value of $0.1784. The grant of options depends on performance hurdles being attained. Details of the performance hurdles are set out on page 26 of the Remuneration Report.

As at 31 December 2006, there were no vested and unexercisable options.

EXERCISE OF OPTIONS GRANTED AS COMPENSATION – AUDITED

During the reporting period, no shares were issued to key management personnel on the exercise of options previously granted as compensation:

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	-	-	31.12.07	-	196,240
	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	-	-	31.12.07	-	135,406
	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	-	-	31.12.07	-	135,406
	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	-	-	-	-	-	-	-

Directors' Report

[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 during the period 21 April 2007 – 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 $	Forfeited in Year $	Total Option Value in Year $
Executive Directors					
Justin Pettett	2006	892,000	-	-	892,000
Ryan Messer	2006	615,480	-	-	615,480
Non –Executive Directors					
John Dickinson	2006	615,480	-	-	615,480
Ananda Kathiravelu[1]	2006	-	-	-	
Philip Judge	2006	-	-	-	-

[1] The related party of the director, First Capital Corporate Limited, received 3,500,000 Options during the year. 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. Further details are set out in Note 22 to the Financial Statements.

[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.

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 3 March 2006). 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 without notice: If the executive is convicted on 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 month's notice if the executive becomes unable to perform his duties due to illness for a prolonged period of time. Voluntary termination: Voluntary termination requires three months' notice by the executive to Pryme.	
Termination payments	Other than outstanding annual leave owing to the executive, there are no termination payments.	

Directors' Report

17. Corporate Governance

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

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

Justin Pettett
Managing Director
Brisbane, Queensland
28 February 2007

Auditor's Independence Declaration

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

**PRYME OIL & GAS LTD ABN 75 117 387 354
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PRYME OIL & GAS LTD
AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and beliefs, during the period ended 31 December 2006 there have been:

i. no contraventions of the auditor 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 (Brisbane) & Partners.

Moore Stephens (Brisbane) & Partners

M J McDonald

Date 28 February 2007.

Brisbane

Moore Stephens (Brisbane) & Partners ABN 28 102 334 945
Level 25, 71 Eagle Street, Brisbane, Queensland, 4000 Australia
GPO Box 2443, Brisbane, Queensland, 4001
Telephone: + 61 7 3317 7877 Facsimile: + 61 7 3100 0028
Email: infob@moorestephens.com.au Web: www.moorestephens.com.au

An independent member of Moore Stephens International Limited – members in principal cities throughout the world

Financials

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2006

	Note	Consolidated Entity 2006 $	Parent Entity 2006 $
Revenue	2	1,016,629	-
Other income	2	36,758	392,526
Accounting and audit fees		(65,058)	(40,811)
Company secretary fees		(18,659)	(18,659)
Corporate retainer		(25,000)	(25,000)
Depletion of work Interest		(340,756)	(1,260)
Directors remuneration		(1,397,766)	(698,850)
Employee benefits expense		(15,215)	(10,389)
Legal expenses		(66,439)	(49,761)
Marketing & advertising		(59,276)	(66,291)
Production costs		(266,411)	-
Professional consulting fees		(122,771)	-
Share registry costs		(29,735)	(29,735)
Stock exchange listing costs		(57,714)	(57,714)
Travel & accomodation expenses		(173,351)	(155,816)
Other expenses		(164,573)	(71,124)
Share of net loss of associate		(298,278)	-
Loss before income tax	3	(2,047,615)	(832,884)
Income tax expense	4	-	-
Net loss for the period		(2,047,615)	(832,884)
Basic earnings per share (cents per share)	7	(5.0)	
Diluted earnings per share (cents per share)	7	(4.0)	

The accompanying notes form part of these financial statements.

Financials

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	Consolidated Entity 2006 $	Parent Entity 2006 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	4,784,829	4,316,445
Trade and other receivables	9	112,712	-
Other current assets		15,514	-
TOTAL CURRENT ASSETS		4,913,055	4,316,445
NON-CURRENT ASSETS			
Trade and other receivables	9	-	12,577,748
Investment accounted for using equity method	10	3,130,786	-
Plant and equipment	11	6,503	6,503
Formation costs		1,077	1,077
Work interest	12	7,385,404	-
TOTAL NON-CURRENT ASSETS		10,523,770	12,585,328
TOTAL ASSETS		15,436,825	16,901,773
CURRENT LIABILITIES			
Trade and other payables	13	439,696	79,257
TOTAL CURRENT LIABILITIES		439,696	79,257
TOTAL LIABILITIES		439,696	79,257
NET ASSETS		14,997,129	16,822,516
EQUITY			
Share capital	15	14,952,733	14,952,733
Reserves		2,092,011	2,702,667
Accumulated loss		(2,047,615)	(832,884)
Parent interest		14,997,129	16,822,516
TOTAL EQUITY		14,997,129	16,822,516

The accompanying notes form part of these financial statements.

Financials

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2006

	Ordinary	Accumulated loss	Fore exchа rese
Consolidated Entity	**$**	**$**	**$**
Opening Balance	-	-	-
Shares issued during the year	16,373,852	-	-
Transaction costs	(1,421,119)	-	-
Options issued during the year	-	-	-
Loss for the period	-	(2,047,615)	-
Adjustments from translation of foreign controlled entities	-	-	(610,
Balance at 31 December 2006	14,952,733	(2,047,615)	(610,

	Ordinary	Accumulated loss	Fore exchа rese
Parent Entity	**$**	**$**	**$**
Opening Balance	-	-	-
Shares issued during the year	16,373,852	-	-
Transaction costs	(1,421,119)	-	-
Options issued during the year	-	-	-
Loss for the period	-	(832,884)	-
Balance at 31 December 2006	**14,952,733**	**(832,884)**	**-**

The accompanying notes form part of these financial statements.

Financials

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2006

	Note	Consolidated Entity 2006 $	Parent Entity 2006 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,295,262	-
Payments to suppliers and employees		(3,975,838)	(789,125)
Interest received		36,758	36,758
Net cash provided by (used in) operating activities	20a	(2,643,818)	(752,367)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(7,763)	(7,762)
Purchase of other non-current assets		(1,077)	(1,077)
Purchase of equity accounted investment		(2,832,508)	-
Payment for work interest		(3,499,266)	-
Net cash provided by (used in) investing activities		(6,340,614)	(8,839)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares (Net of share issue cost)		13,769,261	13,811,074
Loans advanced		-	(8,733,423)
Net cash provided by (used in) financing activities		13,769,261	5,077,651
Net increase in cash held		4,784,829	4,316,445
Cash at end of financial period	8	**4,784,829**	**4,316,445**

The accompanying notes form part of these financial statements.

Financials

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006

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, Urgent Issues Group (UIG) Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated entity of Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc., 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 its controlled entity, Pryme Oil and Gas Inc., and Pryme Oil and Gas Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

Basis of Preparation

Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc., and Pryme Oil and Gas Limited as an individual parent entity have prepared financial statements in accordance with the AIFRS.

The period ended 31 December 2006 is Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc.'s, first reporting period commencing from 1 Decmber 2005 to 31 December 2006. Therefore no comparative amounts and reconciliation are necessary between Australian Generally Accepted Accounting Principles (AGAAP) and AIFRS for Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc..

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation, where applicable, 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.

Details of the controlled entity is contained in Note 24 to the financial statements. The controlled entity has a 31 December financial year end.

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

(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.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Plant and Equipment

Each class of 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, the cost of fixed assets constructed within the consolidated entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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 is depreciated on a straight-line basis over their useful lives to the consolidated entity 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.

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(d) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.
Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

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) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the parent entity. Any transaction costs arising on the issue of the ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(g) 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.

Held-to-maturity investments
These investments have fixed maturities, and it is the consolidated entity's's intention to hold these investments to maturity. Any held-to-maturity investments held by the consolidated entity's are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets
Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

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

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

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

Impairment

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

(h) Impairment of Assets

At each reporting date, the consolidated entity 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 consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Investments in Associates

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

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(j) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the entity in the consolidated entity 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 entity

The financial results and position of foreign operations whose functional currency is different from the consolidated entity'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 consolidated entity's 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.

(k) Employee Benefits

Provision is made for the consolidated entity'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.

Contributions are made by the parent entity to an employee superannuation fund and are charged as expenses when incurred.

(l) Provisions

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

(m) Cash and Cash Equivalents

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

(n) Revenue

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.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

(o) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(p) Goods and Services Tax (GST)

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

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

(q) 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 consolidated entity.

Key estimates — Impairment

The consolidated entity assesses impairment at each reporting date by evaluating conditions specific to the consolidated entity 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.

Key judgments
No key judgments were made during the year.

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Note 2 Revenue

	Consolidated Entity 2006 $	Parent Entity 2006 $
Operating activity		
— Oil and Gas revenue	1,016,629	-
— Interest received	36,758	36,758
— Other revenue	-	355,768
Total revenue	1,053,387	392,526

Note 3 Loss for the Year

Loss before income tax includes the following specific expenses:

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) Expenses		
Production costs - Oil & Gas	266,411	-
Depletion of work interest	340,756	-

Note 4 Income Tax Expense

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) The prima facie tax on profit from ordinary activities before tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)		
— consolidated entity	(614,284)	-
— parent entity	-	(249,865)
	(614,284)	(249,865)
Add:		
Tax effect of:		
— other non-allowable items	46,609	28,333
— share options expensed during the period	328,247	129,180
— effect of current year tax losses derecognised	327,392	180,276
	87,964	87,924
Less:		
Tax effect of:		
— tax deductible equity raising costs	85,267	85,267
— tax deductible formation costs	1,757	1,757
— other tax deductible items	940	900
Total:	-	-

Note 5 Key Management Personnel Compensation

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

Key Management Person	Position
Executive Directors	
Justin Pettett	Managing Director and Chief Executive Officer since 1 December 2005
Ryan Messer	Chief Operations Officer since 1 December 2005
Non Executive Directors	
John Dickinson	Appointed as Chairman and Director since 1 December 2005
Ananda Kathiravelu	Director since 1 December 2005
Philip Judge	Director since 25 September 2006

Since the end of the financial year to the date when this report was authorised for issue, there has been no change in the composition of the Board of Directors or to the Chief Executive Officer or any key management personnel.

(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.

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(c) **Key Management Personnel Compensation**

	Short-term benefits				**Post Employment Benefits**
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation
2006	$	$	$	$	$
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	-	-	-	2,454
Philip Judge	-	-	-	-	-
	358,709	-	-	-	14,230

	Other long term benefits	**Share-based payment**		**Total**	**Performance related**
	Other	Equity	Options		
2006 (cont.)	$	$	$	$	%
Justin Pettett	-	420,000	430,600	980,799	87%
Ryan Messer	-	289,800	297,114	697,237	84%
John Dickinson	-	289,800	297,114	667,945	88%
Ananda Kathiravelu	-	-	-	51,386	0%
Philip Judge	-	-	-	-	0%
	-	999,600	1,024,828	2,397,367	

(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	31.07.06	5,000,000	0.1784	0.20	21.04.2007	30.06.2009	Nil
Ryan Messer	31.07.06	3,450,000	0.1784	0.20	21.04.2007	30.06.2009	Nil
John Dickinson	31.07.06	3,450,000	0.1784	0.20	21.04.2007	30.06.2009	Nil
Ananda Kathiravelu	-	-	-	-	-	-	-
Philip Judge	-	-	-	-	-	-	-
		11,900,000					-

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

(e) **Shares Issued on Exercise of Compensation Options**
No options exercised during the year that were granted as compensation in prior periods.

(f) **Options and Rights Holdings**
Number of Options held by Key Management Personnel granted as compensation

2006	Balance 01.12.2005	Granted as Compensation	Balance 31.12.06	Total Vested 31.12.06	Total Exercisable 31.12.06	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	-

Number of Rights held by Key Management Personnel granted as compensation

2006	Balance 01.12.2005	Granted as Compensation	Balance 31.12.06	Total Vested 31.12.06	Total Exercisable 31.12.06	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	-

(g) **Shareholdings**
Number of ordinary shares held by Key Management Personnel

2006	Balance 01.12.2005	Received as Compensation	Options Exercised	Net Change Other*	Balance 31.12.06
Key Management Personnel					
Justin Pettett	1,700,000	-	-	35,000	1,735,000
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
	14,341,663	-	-	35,000	14,376,663

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

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(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 Pryme 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: The options will be granted 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 (21.04.07) 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 2006	No. of Options 2006
Outstanding at the beginning of the period	None	None
Forfeited during the period	None	None
Exercised during the period	None	None
Granted during the period	$0.20	12,050,000
Outstanding at the end of the period	$0.20	12,050,000
Exercisable at the end of the period	None	None

The options outstanding at 31 December 2006 have an exercise price of $0.20 and a weighted average contractual life of 2.9 years.

During the financial year, no 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 Pryme 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 2006	Rights 2006
Outstanding at the beginning of the period	N/A	None
Forfeited during the period	N/A	None
Exercised during the period	N/A	None
Granted during the period	N/A	4,760,000
Outstanding at the end of the period	N/A	4,760,000
Exercisable at the end of the period	N/A	None

The rights at 31 December 2006 have no exercise price and a weighted average contractual life of 3 years.

During the financial year, no rights vested.

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Note 6 Auditor's Remuneration

	Consolidated Entity 2006 $	Parent Entity 2006 $
Remuneration of the auditor of the parent entity for:		
Audit services:		
— Auditing or reviewing the financial report	51,000	51,000
Non-audit serives:		
— taxation services	11,806	11,806
Remuneration of auditor of subsidiary for:		
— auditing or reviewing the financial report of subsidiary	13,203	-

Note 7 Earnings per Share

	Consolidated Entity 2006 $
(a) Reconciliation of earnings to profit or loss	
Loss	(2,047,615)
Earnings used in the calculation of dilutive EPS from continuing operations	(2,047,615)
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	42,467,192
Weighted average number of options outstanding	8,451,240
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	50,918,432

Note 8 Cash and Cash Equivalents

	Consolidated Entity 2006 $	Parent Entity 2006 $
Cash at bank and in hand	734,829	266,445
Short-term bank deposits	4,050,000	4,050,000
	4,784,829	4,316,445

The effective interest rate on short-term bank deposits was 6.10% these deposits are at call.

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	4,784,829	4,316,445
Bank overdrafts	-	-
	4,784,829	4,316,445

Note 9 Trade and Other Receivables

	Consolidated Entity 2006 $	Parent Entity 2006 $
CURRENT		
Trade receivables	112,712	-
Provision for impairment of receivables	-	-
	112,712	-

	Consolidated Entity 2006 $	Parent Entity 2006 $
NON-CURRENT		
Receivable from controlled entity	-	12,577,748
Provision for impairment of receivables	-	-
	-	12,577,748

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Note 10 Investment in Associate

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Ownership Interest (%)	Carrying Amount of Investment
			2006	2006
Unlisted:				$
Turner Bayou, LLC	Oil & Gas exploration & drilling	USA	80.80%	3,130,786
				3,130,786

(a) **Movements during the Year in Equity Accounted Investments in Associated Company**

		2006
		$
Balance at beginning of the financial year		-
Add: New investments during the year		3,429,064
Share of associated company's loss after income tax	10(b)	(298,278)
Balance at end of the financial year		3,130,786

(b) Equity accounted loss of associate are broken down as follows:

Share of associate's loss before income tax expense	(298,278)
Share of associate's income tax expense	-
Share of associate's loss after income tax	(298,278)

(c) **Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associate**

Current assets	720,715
Non-current assets	4,231,359
Total assets	4,952,074
Current liabilities	289,084
Non-current liabilities	5,032,146
Total liabilities	5,321,230
Net assets	(369,156)
Revenues	-
Loss after income tax of associate	(369,156)

Note 11 Plant and Equipment

	Consolidated Entity 2006 $	**Parent Entity 2006 $**
PLANT AND EQUIPMENT		
Office equipment:		
At cost	7,763	7,763
Accumulated depreciation	(1,260)	(1,260)
	6,503	6,503

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

	Office equipment	Total
Consolidated Entity:		
Balance at the beginning of year	7,763	7,763
Depreciation	(1,260)	(1,260)
Carrying amount at the end of year	6,503	6,503
Parent Entity:		
Balance at the beginning of year	7,763	7,763
Depreciation	(1,260)	(1,260)
Carrying amount at the end of year	6,503	6,503

Note 12 Work Interest

	Consolidated Entity 2006 $	**Parent Entity 2006 $**
NON-CURRENT		
Exploration expenditure capitalised		
— exploration and evaluation phases	7,385,404	-
Total exploration expenditure	7,385,404	-

Recoverability of the carrying amount of exploration assets is dependent on the the successful exploration and sale of oil and gas. Capitalised costs amounting to $4,487,143 have been included in cash flows from investing activities in the cash flow statement.

Note 13 Trade and Other Payables

	Consolidated Entity 2006 $	**Parent Entity 2006 $**
CURRENT		
Unsecured liabilities		
Other payables and accrued expenses	439,696	79,257
	439,696	79,257

Financials

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006

Note 14 Tax

	Consolidated Entity 2006 $	Parent Entity 2006 $
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur		
— temporary differences	381,098	367,644
— tax losses:		
— operating losses	327,392	180,276
	708,490	547,920

Note 15 Issued Capital

	Consolidated Entity 2006 $	Parent Entity 2006 $
70,272,363 ordinary shares	16,373,852	16,373,852
Capital Raising cost	(1,421,119)	(1,421,119)
	14,952,733	14,952,733

(a) **Ordinary Shares**	Consolidated Entity 2006 No.	Parent Entity 2006 No.
At the beginning of reporting period		
(i) Shares issued during year		
— 01-December-2005	10,100,000	10,100,000
— 30-January-2006	349,750	349,750
— 20-February-2006	287,638	287,638
— 09-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	821,000	821,000
— 26-April-2006	4,500,000	4,500,000
— 03-May-2006	475,000	475,000
— 03-May-2006	1,750,000	1,750,000
— 03-May-2006	1,494,090	1,494,090
— 30-June-2006	1,180,363	1,180,363
— 05-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
— 03-October-2006	1,500,000	1,500,000
— 12-October-2006	525,000	525,000
— 20-October-2006	225,000	225,000
— 08-November-2006	1,000,000	1,000,000
— 29-December-2006*	200,000	200,000
Total ordinary shares at reporting date	70,272,363	70,272,363

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

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on shares held. On a show of hands every shareholder present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

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

(b) **Options**		
20 cent Options issued:		
— 27-July-2006	5,000,000	5,000,000
Less:		
20 cent Options exercised:		
— 29-September-2006	325,000	325,000
— 29-December-2006	200,000	200,000
Total 20 cent Options	4,475,000	4,475,000
40 cent Options:		
— 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
Total 40 cent Options	36,354,502	36,354,502
Total options at reporting date	40,829,502	40,829,502

Financials

PRYME OIL AND GAS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
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Note 16 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 employee share options as set out in Note 5.

Note 17 Capital and Leasing Commitments

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) **Capital Expenditure Commitments**		
As at 31 December 2006, the consolidated entity has committed to the following expenditure on work interest Payable:		
— Not later than 12 months	3,433,622	-

Note 18 Contingent Liabilities and Contingent Assets

There are no contingent liabilities and contingent assets as at 31 December 2006.

Note 19 Segment Reporting

Business segments

The consolidated entity operates predominantly in the exploration and development of properties for the production of oil and gas.

Geographical segments

Geographic segment	AUS	USA	Elimination	Consolidation
Income	392,526	1,016,629	(355,767)	1,053,388
Depletion, Depreciation and amortisation	1,260	339,496	-	340,756
Segments results before tax	(832,884)	(1,845,118)	630,387	(2,047,615)
Assets	16,901,773	11,112,800	(12,577,748)	15,436,825
Liabilities	79,257	12,866,882	(12,506,443)	(439,696)

Note 20 Cash Flow Information

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) **Reconciliation of Cash Flow from Operations with loss after Income Tax**		
Loss after income tax	(2,047,615)	(832,884)
Non-cash flows in loss		
Depreciation	1260	1260
Movement in foreign currency reserve	(610,655)	-
Share of Associate loss	(298,278)	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	(112,712)	-
(Increase)/decrease in prepayments	(15,514)	-
Increase/(decrease) in trade payables and accruals	431,529	71,090
Increase/(decrease) in provisions	8,167	8,167
	(2,643,818)	(752,367)

(b) **Non-cash Financing and Investing Activities**
(i) Share issue
An amount of $2,858,752 of shares were issued during the year as payment of drilling and exploration services.

(c) **Credit Standby Arrangements with Banks**
There are no credit standby arrangements with banks as at 31 December 2006.

(d) **Loan Facilities**
There are no loan facilities arranged at at 31 December 2006.

Note 21 Events After the Balance Sheet Date

(a) The financial report was authorised for issue on 28 February 2007 by the board of directors.

(b) On 4 January 2007, 200,000 shares were issued on conversion of 20 cent options, for which monies were received on 29 December 2006, as disclosed in Note 15.

Financials

PRYME OIL AND GAS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006

Note 22 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 Company**
Refer to Note 10.

(c) **Other Related Parties**
3,500,000 Options were granted to First Capital Corporate Limited (a related party of Pryme Oil & Gas Limited Director Ananda Kathiravelu) with an exercise price of $0.20 per option on 27 July 2006.

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

(e) **Wholly-owned subsidiary**
An amount of $12,577,748 was loaned from Pryme Oil and Gas Limited to Pryme Oil and Gas Inc. throughout the financial period ended 31 December 2006. This loan is repayable in Australian Dollars and on consolidation is eliminated. There is no interest and no set terms of repayment on this loan.

Pryme Oil and Gas Limited on charges costs to Pryme Oil and Gas Inc. who reimbursed a total of $391,345 worth of expenses for the financial period ended 31 December 2006. This amount has been eliminated on consolidation.

Note 23 Financial Instruments

(a) **Financial Risk Management**
The consolidated entity'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 the consolidated entity's operations. Derivatives are used by the consolidated entity for hedging purposes. Such instruments include forward exchange and currency option contracts and interest rate swap agreements. The consolidated entity does not speculate in the trading of derivative instruments.

(i) **Treasury Risk Management**
A finance committee consisting of senior executives of the consolidated entity 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 consolidated entity 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 are no exposure to interest rate risk as there are no debt owing.

Liquidity risk
The consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

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

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

(b) **Financial Instruments**

(i) **Interest Rate Risk**
The consolidated entity'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 $	Within Year $	1 to 5 years $	Over 5 Years $	Non-interest Bearing $	Total $ 2006
Financial Assets:							
Cash and cash equivalents	6.10	4,784,829	-	-	-	-	4,784,829
Receivables			-	-	-	112,712	112,712
Total Financial Assets		4,784,829	-	-	-	112,712	4,897,541
Financial Liabilities:							
Trade and sundry payables		-	-	-	-	439,696	439,696
Total Financial Liabilities		-	-	-	-	439,696	439,696

Financials

PRYME OIL AND GAS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006

Note 24 Controlled Entity

(a) **Controlled Entity Consolidated**

	Country of Incorporation	Percentage Owned (%)*
Ultimate Parent Entity:		2006
Pryme Oil and Gas Limited	Australia	100
Subsidiary of Pryme Oil and Gas Limited:		
Pryme Oil and Gas Inc	United States	100

* Percentage of voting power is in proportion to ownership

There were no subsidiary acquisition or disposals during the year.

Note 25 Economic Dependency

The controlled entity had made oil and natural gas sales to one independent purchaser for the period from 6 February 2006 to 31 December 2006 and 100% of trade accounts receivable as of 31 December 2006. Trade accounts receivable as of 31 December 2006 resulted from oil and natural gas sales. There is an adequate number of potential purchasers of oil and natural gas volumes such that management believes the loss of this sole purchaser would not have a material adverse effect on the company's results of operations or its financial position.

Note 27 Company Details

The registered office of the parent entity is:
Pryme Oil and Gas Limited
Level 7, 320 Adelaide Street
Brisbane QLD 4000

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

The wholly owned subsidiary of Pryme Oil and Gas Ltd is:
Pryme Oil and Gas Inc.
925B Peachtree Street NE Suite 384
Atlanta Georgia 30309
United States of America

Financials

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 15 to 30 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 2006 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 6 to 12 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 2006.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland.
28 February 2007.

Audit Report

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF
PRYME OIL AND GAS LTD

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Pryme Oil and Gas Ltd., for the period ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our audit opinion.

Moore Stephens (Brisbane) & Partners ABN 28 102 334 945
Level 25, 71 Eagle Street, Brisbane, Queensland, 4000 Australia
GPO Box 2443, Brisbane, Queensland, 4001
Telephone: + 61 7 3317 7877 Facsimile: + 61 7 3100 0028
Email: infob@moorestephens.com.au Web: www.moorestephens.com.au

An independent member of Moore Stephens International Limited – members in principal cities throughout the world

Audit Report

MOORE STEPHENS

Audit Opinion

In our opinion, the financial report of Pryme Oil and Gas Ltd. is in accordance with:

(a) 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 2006 and of their performance for the period ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Moore Stephens (Brisbane) & Partners

MOORE STEPHENS (BRISBANE) & PARTNERS
Chartered Accountants

M J McDonald
Partner
Brisbane, 28 February 2007.

Shareholder Information

As At 16 February 2007

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

1. Substantial shareholders

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

Fully paid Ordinary Shares

Name	Number	%
Ananda Kathiravelu	4,727,500	6.73
Zebon Two Pty Limited (Zebon Property A/C)	4,660,000	6.63
Philip Judge	4,565,163	6.50

$0.40 Options (Quoted)

Name	Number	%
Zebon Two Pty Limited (Zebon Property A/C)	2,153,334	5.92

2. Number of security holders and securities on issue

Pryme has issued 70,262,363 fully paid ordinary shares and these are held by 1,244 shareholders.

Pryme has issued 36,354,502 $ 0.40 options and these are held by 569 option holders.

Pryme has issued 4,475,000 $ 0.20 options and these are held by 12 option holders.

3. Voting rights

Ordinary shares

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

Options

Option holders do not have any voting rights on the options held by them.

4. Distribution of security holders

Category	Fully paid Ordinary shares			$ 0.20 Options (unquoted)			$0.40 Options		
	Holders	Shares	%	Holders	Options	%	Holders	Options	%
1 - 1,000	52	40,370	0.06	-	-	-	40	22,946	0.06
1,001 - 5,000	295	893,986	1.27	-	-	-	131	385,235	1.06
5,001 - 10,000	293	2,605,881	3.71	-	-	-	80	666,592	1.84
10,001 - 100,000	499	17,351,193	24.69	-	-	-	238	9,002,151	24.76
100,001 and over	105	49,370,933	70.26	12	4,475,000	100	80	26,277,579	72.28
Total	**1,244**	**70,262,363**	**100**	**12**	**4,475,000**	**100**	**569**	**36,354,502**	**100**

Shareholder Information
As At 16 February 2007

5. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 54. 1,064 shares comprise a marketable parcel at the Pryme closing share price of $ 0.47.

6. Unquoted equity securities

4,475,000 unlisted $ 0.20 options have been issued to 12 option holders and remain unexercised.

Details of holders of 20% or more of the $ 0.20 options are as follows:

Name	Number	%
First Capital Corporate Limited	1,303,650	29.13

7. Details regarding escrow

10,134,000 ordinary shares classified as restricted securities are held in escrow until 21 April 2008 and are unquoted.
3,300,000 ordinary shares classified as restricted securities are held in escrow until 21 April 2007 and are unquoted.

8. On market buy-back

There is no current on market buy-back.

9. Statement regarding use of cash and assets.

Pryme has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in the prospectus dated 3 March 2006.

10. Twenty largest shareholders

Details of the 20 largest shareholders by registered shareholding are:

	Name	No. of shares	%
1	First Capital Corporate Limited	4,687,500	6.67
2	Zebon Two Pty Limited (Zebon Property A/C)	4,660,000	6.63
3	Anglo Energy Company Inc	4,187,613	5.96
4	Dreampt Pty Limited	1,810,000	2.58
5	Craig Sceroler (Sceroler Properties A/C)	1,800,000	2.56
6	Pettett Pty Limited (Pettett Family A/C)	1,700,000	2.42
7	Mr John Dickinson	1,700,000	2.42
8	Sourcerock Investments LLC	1,700,000	2.42
9	Mr James Stewart	1,650,000	2.35
10	Mr John Fox	884,050	1.26
11	Professional Payment Services Pty Limited (Number 2 A/C)	696,021	0.99
12	Big Pine Petroleum Inc	681,000	0.97
13	Dr Peter John Vince & Dr Eva Vince	675,000	0.96
14	Mr Peter Daniel Adams	600,000	0.86
15	Janelle Kerrie Vassallo	575,000	0.82
16	Coast Equity Pty Limited (The Coast Trading A/C)	562,500	0.80
17	Mr Mark Hambour (Alfalfa Investment A/C)	535,000	0.76
18	Equities and Securities Pty Limited (Number 1 A/C)	500,000	0.71
19	Equities and Securities Pty Limited (Number 2 A/C)	500,000	0.71
20	Mr Robert Dickinson (Dickinson Enterprise Limited A/C)	500,000	0.71
	Total	**30,603,684**	**43.56**

Shareholder Information
As At 16 February 2007

11. Twenty largest option holders (40 cent options)

Details of the 20 largest shareholders by registered holding are

	Name	No. of options	%
1	Zebon Two Pty Limited (Zebon Property A/C)	2,153,334	5.92
2	Ms Tamara Chick	1,610,000	4.43
3	Anglo Energy Company Inc	1,395,871	3.84
4	Berdan Investment Corporation	1,100,000	3.03
5	Crystal Financial Services Limited	989,000	2.72
6	Mr John Charles Vassallo & Janelle Kerrie Vassallo (Vassallo Family S/F A/C)	883,334	2.43
7	First Capital Corporate Limited	812,500	2.24
8	Dreampt Pty Limited	803,334	2.21
9	Professional Payment Services Pty Limited (Number 2 A/C)	631,410	1.74
10	Pettett Pty Limited (Pettett Family A/C)	578,334	1.59
11	Mr John Dickinson	566,667	1.56
12	Sourcerock Investments LLC	566,667	1.56
13	Mr James Stewart	550,000	1.51
14	Dr Peter John Vince	500,000	1.38
15	Valerie Lynette Kathiravelu (Libertine Investment A/C)	466,666	1.28
16	Solequest Pty Limited	400,000	1.10
17	Fortis Clearing Nominees Pty Limited (Settlement A/C)	397,477	1.09
18	Mr Victor Kondas	381,141	1.05
19	Mr Peter Edward Hordov & Mr Natalie Kristina Hordov	319,923	0.88
20	Mr Ian James Rutherford & Ms Clare Rutherford (IJR Number 1 S/F A/C)	319,333	0.87
	Total	**15,424,991**	**42.43**

Corporate Directory

Directors
Mr John Dickinson (Chairman)
Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Executive Director)
Mr Ananda Kathiravelu (Non-Executive Director)
Mr Philip Judge (Non-Executive Director)

Company Secretary
Mr Matthew Fogarty

Registered and Principal Office
Level 7, 320 Adelaide Street
BRISBANE QLD 4000
Phone: +61 7 3371 1103
Fax: +61 7 3371 1105

Postal Address
GPO Box 111
BRISBANE QLD 4001

Atlanta USA Office
925B Peachtree Street NE
Suite 384
ATLANTA, GA 30309
Phone: +1 678 840 2348
Fax: +1 404 420 2043

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

Australian Company Number
117 387 354

Australian Business Number
75 117 387 354

Auditors
Moore Stephens
Level 25, 71 Eagle Street
BRISBANE QLD 4000

Share Registry
Advanced Share Registry Services
110 Stirling Hwy
Nedlands WA 6009
Phone: +61 8 9389 8033
Fax: +61 8 9389 7871

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

Stock Exchanges
Australian Securities Exchange Limited (ASX)

Code: PYM
Code: PYMO

American Depository Receipts (ADR)
Code: POGLY

Depository for ADR
Bank of New York
101 Barclay Street
NEW YORK NY 10286




ABN 75 117 387 354

Tel: +61 7 3371 1103 Fax: +61 7 3371 1105

Level 7 320 Adelaide Street GPO Box 111 Brisbane Queensland 4001

www.prymeoilandgas.com

ATLANTA – BRISBANE – HOUSTON