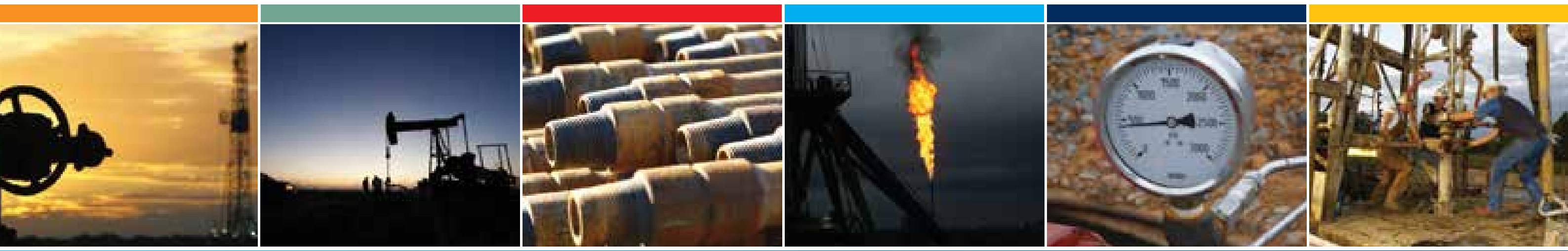


PRYME ENERGY LIMITED

(ABN 75 117 387 354)

AND

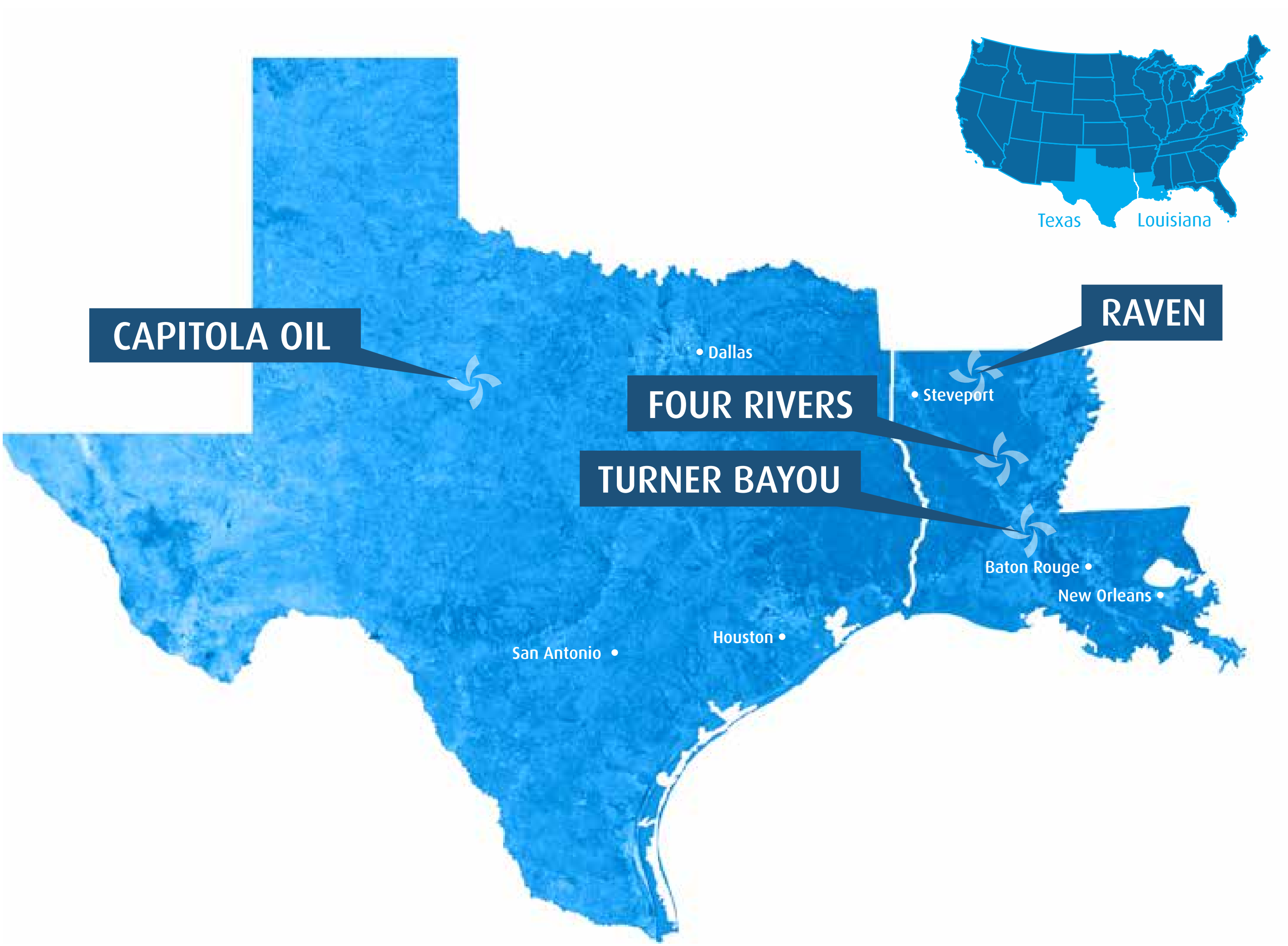
CONTROLLED ENTITIES

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

Company Snapshot

ASX Code:	PYM
OTCQX Code:	POGLY
Recent price: (27 February 2014)	$0.031
Cash on hand: (31 December 2013)	$1,557,000
Shares outstanding:	289,708,568
Market Capitalisation: (27 February 2014)	$9m
12 Month Share Price Range:	$0.012 - $0.14



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Glossary

A$	Australian Dollars
US$	United States Dollars
Bbls/day	Barrels (of oil) per day
MMBO	Million Barrels of Oil
MMBOE	Million Barrels of Oil Equivalent
BOE	Barrels of Oil Equivalent
BOE/day	Barrels of Oil Equivalent per day
BOE/month	Barrels of Oil Equivalent per month
Mcf	Thousand cubic feet (of natural gas)
Mcfd	Thousand cubic feet (of natural gas) per day
NRI	Net Revenue Interest
WI	Working Interest
TVD	Total Vertical Depth
TMD	Total Measured Depth
MD	Measured Depth
OOIP	Original Oil in Place
3.28 feet	Equals 1 metre

Chairman's Report

Dear Shareholder,

After a very difficult 2013 your management has developed a new opportunity in the Eastern Shelf of the Permian Basin in Texas called the Capitola Oil Project, which has the potential to transform the company and put it firmly on the path towards becoming a top tier independent oil and gas company.

The Turner Bayou Chalk Project has been very disappointing for Pryme. We regard it as a project with considerable potential based on the 3D seismic interpretation as well as the production of hydrocarbons while drilling. We continue to believe that there is significant value to be extracted from the project. However, we also believe that shareholder interests are better served by focusing on the Capitola Oil Project which, as well as conventional targets, includes exposure to the emerging Cline Shale oil play.

The Capitola Oil Project, with a number of stacked pay zones, provides an attractive risk profile for investors. The location has historic significance as an oil producing area since 1931. In recent times, in addition to a resurgence of interest in the conventional targets, the Cline Shale potential of the region has attracted major explorers and has led to an increasing level of activity. The high level of interest is evidenced by Sumitomo Corporation's investment of US$1.4 billion in Devon Energy to explore and develop the Cline Shale. Devon, with about 650,000 acres leased in the Cline, surrounds the Capitola Oil project leases and is engaged in a major drilling program with reported initial production around 700 BOE per day from successfully completed horizontal wells.

The project farm-in terms, under which Pryme will earn its ultimate interest, allow Pryme to progressively earn its interest as it drills and completes wells. As a risk mitigation strategy, Pryme is able to determine well locations and also to cease drilling at any time if the risk reward mix does not meet its criteria. In this way the vendor consideration is aligned to the success of the project and its increasing value to Pryme and its shareholders.

Risk is also mitigated by Pryme being able to earn its entire interest in the project by drilling relatively low risk, shallow Breckenridge Lime and Canyon Sands wells over a two year earn-in period. Over this time it is expected that other explorers will reduce the risk of the Cline Shale play by continuing to invest in wells in the formation. It is also expected that, when Pryme commences to explore the Cline Shale, the technical understanding of operations in the formation will have greatly increased and the risk will have been substantially reduced.

The Capitola Oil Project presents a large number of targets and full exploitation will take a number of years. It is a very important project for Pryme and has the potential to transform the company and deliver significant value to shareholders.

The past couple of years have provided many challenges for your management. The dedication with which they have tackled and overcome these and plotted a new course for the company has demonstrated a very high level of commitment to their quest to create value for shareholders. They are to be commended.

I thank you for your support and look forward to a rewarding 2014.

George Lloyd
Chairman

Production

Annual Sales Report (net to Pryme)

Project	Calendar Year 2013		Calendar Year 2012	
	Natural Gas (Mcf)	Oil/Condensate (Bbls)	Natural Gas (Mcf)	Oil/Condensate (Bbls)
Four Rivers*	0	11,555	0	13,506
Raven*	40,300	801	46,517	978
Turner Bayou*	0	10,496	0	10,881
Total	40,403	22,857	46,517	25,365
Total (BOE)**	**29,591**		**33,118**	

** Actual sale for the last month of the year is an estimate based on production data from prior months of production*

*** Includes minor amounts of production from additional projects (i.e. Condor.) Natural gas is converted to barrels of oil equivalent (BOE) on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.*

Average daily sales for the calendar year ending 31 December 2013 were 63 BOPD (2012: 70 BOPD) and 112 Mcf per day of natural gas (2012: 127 Mcf) (82 BOE per day (2011: 90 BOE)). The reduced production for the year is mainly attributable to the disappointing production volumes from Turner Bayou, and normal decline in production. The proportion of oil and condensate in the oil and gas sales mix remained stable at 80% oil and 20% natural gas confirming Pryme's bias towards oil production as opposed to natural gas.

Major activities in 2013 included evaluation of the results of drilling and completing the third deep Austin Chalk well in the Turner Bayou Chalk project as well as the evaluation of several new projects. Our vision remains to grow Pryme into a top tier independent oil and gas company capable of delivering high returns to shareholders through the exploration and development of high quality US onshore projects.

We will deliver on this vision through the implementation of a strategy focused on projects with significant scalability of production, cash flows and reserves through high quality exploration potential and secondary target upside. We are targeting liquids rich hydrocarbon systems containing "stacked pay" opportunities to maximise the likelihood of success and optimize returns. We will be emphasising conventional and emerging unconventional plays, and securing early entry opportunities to avoid the high costs of more mature plays. Wells drilled by Pryme will be shallow to intermediate (less than 8,000 feet (2,438 metres)) depths with liquids rich targets. Where possible, Pryme, with the support of its extensive technical advisory team, will operate the projects and maintain project control through the exploration and development stages.

The recently announced Capitola Oil Project located in the Eastern Shelf of the Permian Basin, Texas is a reflection of Pryme's strategy. The Capitola Oil Project has numerous shallow conventional vertical targets to exploit and also offers upside potential through development of the unconventional Cline Shale which is included in the project acreage. Participation in the project will give shareholders exposure to a low risk conventional play and high impact exposure to an emerging play.

The board and management team of Pryme are confident that the exploration and development of Capitola, along with our existing Four Rivers project, through 2014 have the potential to build substantial value for the company and its shareholders.

Projects

Capitola Oil Project

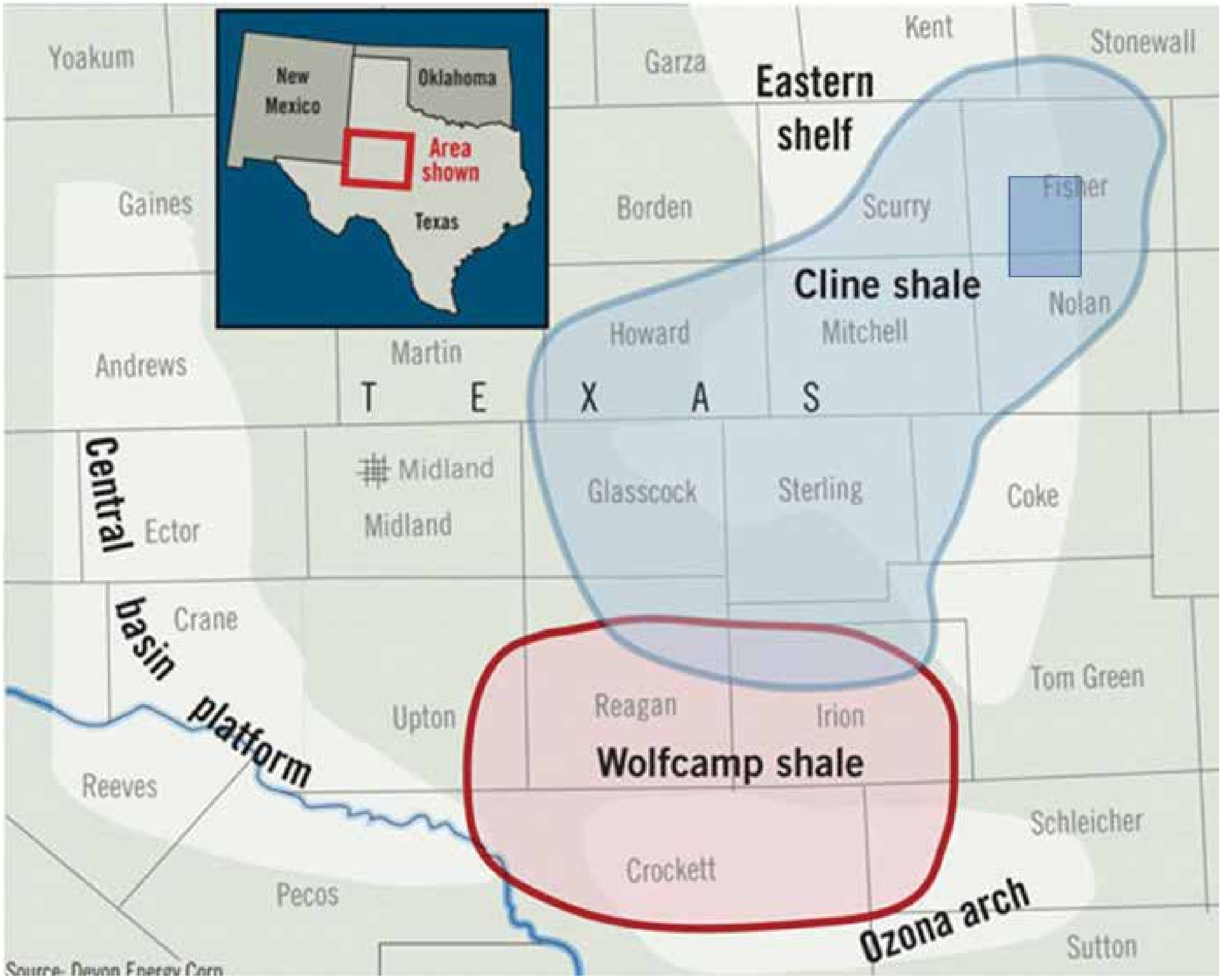
***"Significant upside in a proven oil play for Pryme and its shareholders"* – Justin Pettett, Managing Director**

The Capitola Oil Project comprises 9,333 mineral acres in the Eastern Shelf of the Permian Basin, Texas USA. The project area contains established stacked oil producing formations, the Breckenridge Lime and the Canyon Sands, at depths to about 5,000 feet as well as the Cline Shale formation, at a depth of about 6,000 feet, which is an emerging oil rich shale play with potential to rival the well-known Bakken and Eagle Ford shale plays. The Cline Shale is presently being developed in locations adjacent to the project area to the east and the west. Horizontal wells drilled through the Cline Shale are generating initial production rates of up to 1,000 BOE/day and vertical completions are producing up to 200 BOE/day with estimated ultimate recoveries ranging from 100,000 BOE to 600,000 BOE per well.

Pryme is operator of the project and will progressively earn its interest in the project by drilling 9 vertical wells and 1 horizontal well into the stacked formations above the Cline Shale in a phased program over 2 years. Pryme may accelerate the drilling program to earn its acreage and has absolute discretion over well locations and project progression from phase to phase.

"With up to 200 vertical locations and 60 horizontal well locations drill ready in the Cline Shale, there is plenty of room for the company to grow its production, revenues and value in the Capitola project area over a number of years," said Justin Pettett, Pryme's Managing Director. "In addition to testing multiple objectives and redevelopment opportunities, there is significant upside in this emerging shale play for Pryme and its shareholders."

Permian Basin Shale Formations – Capitola Oil project acreage in blue rectangle in Nolan and Fisher Counties



Projects (cont.)

The Capitola Oil Project is located from 2 to 8 miles north of the town of Sweetwater in Nolan and Fisher Counties, Texas and overlies two proven productive oil fields containing 3 primary targets - the Breckenridge Lime (4,500 feet deep), the Canyon Sands (4,900 feet deep) and the Cline Shale (6,000 feet deep). The Canyon Sands itself offers 5 target intervals.

Large oil and gas explorers such as Devon Energy (NYSE:DVN), Range Resources (NYSE:RRC) and Laredo Petroleum (NYSE:LPI) have leased substantial tracts of land in the Cline Shale and are drilling horizontal wells in and around the Capitola Oil Project with good results. Devon Energy has surrounded the project area with leases and is now permitting wells adjacent to the project acreage.

Other explorers are testing the shallower zones above the Cline as well as certain secondary zones below the Cline. The privately owned Gunn Oil Company is currently developing the shallow zones above the Cline, only 3 miles from the Capitola project area, and has 2 rigs drilling back to back vertical wells to exploit the lower Canyon Sands formation.

"We have seen a surge of activity in this part of the Permian Basin which has been primarily driven by Devon Energy expanding its position in the Cline Shale to over a half million acres," said Ryan Messer Pryme's Executive Director and COO. "Our initial objective is to drill vertical wells and produce from conventional zones above and below the Cline Shale. Revenue from these wells will support subsequent exploration. It is intended that the initial wells will penetrate the Cline to gather data in support of a horizontal drilling program."

Project Potential and Typical Well Economics

Wells to test and establish production from the Breckenridge Lime and Canyon Sands formations will be drilled vertically and fracked in the productive horizons. A typical vertical well drilled to 6,000 feet costs approximately US$950,000 to drill and complete and is expected to produce from 50,000 to 140,000 BOE over its life assuming an initial production rate of 60 to 140 BOE/day from the primary targets.

A typical horizontal fracked Cline Shale well, drilled to about 6,000 feet vertically with a 4,000 foot lateral, costs approximately US$6.6 million to drill and complete and is expected to produce between 100,000 to 600,000 BOE over its life assuming an initial production rate of 120 to 710 BOE/day. With several hundred wells to drill in order to fully develop the project, the Capitola Oil Project represents enormous upside for Pryme and its shareholders.

There is an extensive exploration database covering the area in and around the Capitola Oil Project acreage which enables recoverable oil to be estimated using conservative, generally accepted recovery factors for each of the primary targets. The table and corresponding graph below illustrate the net potential for Pryme measured in millions of barrels of oil equivalent.

Recoverable Oil*	Low estimate	Best estimate	High estimate	Fractional recovery**
Breckenridge Lime	1.4 MMBOE	19.2 MMBOE	49.8 MMBOE	12.5%
Canyon Sands	6.9 MMBOE	8.7 MMBOE	10.6 MMBOE	18.0%
Cline Shale	0.8 MMBOE	5.9 MMBOE	13.8 MMBOE	6.0%
Total (BOE)	**9.1 MMBOE**	**33.8 MMBOE**	**74.2 MMBOE**	

** Recoverable Oil calculated by determining Remaining Oil in Place and applying a fractional recovery percentage as at the date of this announcement. All figures are net to Pryme and have been determined using a deterministic method for the Canyon Sands and a probabilistic method for the Breckenridge Lime and Cline Shale under SPE-PRMS. Natural gas is converted to BOE on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.*

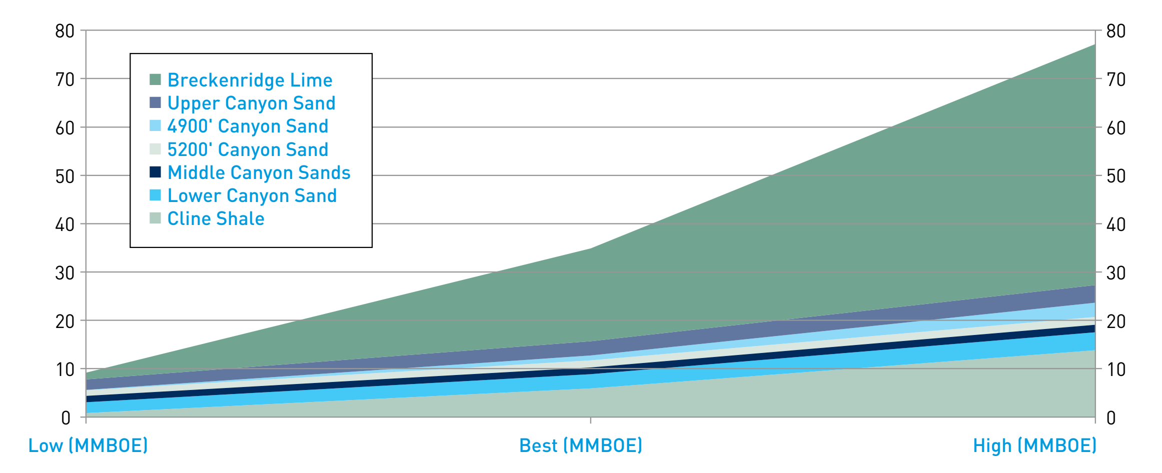
***Fraction recovery is calculated 1) Breckenridge Lime assumes general accepted recovery for solution gas drive reservoir, 2) Canyon Sands by material balance calculations, and 3) Cline Shale assumes generally accepted recovery for unconventional resource plays.*

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Pryme confirms in this subsequent public report that it is not aware of any new information or data that materially affects the information included in the relevant market announcement made on 11 February 2014 and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

Projects (cont.)

Resource potential (primary objectives only)



The first two wells to be drilled in the Capitola Oil project will be drilled back-to-back and preliminary work is underway. Because the acreage is "drill ready" the drilling lead time is substantially reduced enabling early commencement of the drilling program. Shareholders will be advised of progress on Capitola as information comes to hand.

Four Rivers Project (8% - 25% WI)

The Four Rivers Project extends from Winn, Concordia and Catahoula Parishes in Louisiana to Adams and Jefferson Counties in Mississippi. The project is targeting multiple "stacked" oil zones throughout the Middle-Wilcox formation at depths ranging from approximately 4,000 to 8,000 feet. Wells drilled in the Middle-Wilcox exhibit long production lives with low decline rates after the initial flush oil is produced and relatively steady production is established. They are relatively inexpensive to drill and typically have low operating and on-going maintenance costs.

Pryme is the operator of a new drilling program within the Four Rivers project area and earns a 4% carried working interest to the casing point for each well drilled. Pryme may also elect to increase its working interest participation on a prospect by prospect basis. Decisions to increase Pryme's working interest in any prospect will be based on technical and economic evaluation criteria.

The major participant in the drilling program is Roundtable Resources LLC of Natchez Mississippi. Roundtable Resources has over 50 man-years of successful exploration and drilling of the shallow Middle-Wilcox oil sands formation in Louisiana and has recently made two greater than one million barrel field discoveries in the region. Pryme has teamed up with Roundtable Resources to provide geological, land and technical expertise through the drilling, completion and production phases of the program.

Pryme's share of oil sales for the year was 11,555 barrels (32 average BOPD net to Pryme), a 14% decline over the previous year attributable to normal decline. No new wells were added during 2013. Realised oil prices for 2013 averaged US$104.90 per barrel.

Raven Project (35% WI / 25.38% NRI)

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

Pryme's share of natural gas and condensate sales from the three producing wells in the Raven project was 40,403 Mcf of natural gas (average 112 Mcf per day net to Pryme) and 801 barrels of condensate (average 2 BOPD net to Pryme), a 15% reduction over the previous year. The decrease was attributable to natural production decline.

US natural gas price prices have been trending up through 2013. The favourable price increase is expected to somewhat offset the effect of natural decline in Raven through 2014. Realised natural gas and condensate prices for 2013 in Raven averaged US$3.23 per Mcf and US$93.63 per barrel respectively.

Projects (cont.)

Turner Bayou Chalk Project

The performance of the Turner Bayou Chalk Project over the past year in has been very challenging for Pryme and its shareholders. The selection of the Austin Chalk formation as an exploration target was based on the interpretation of 3D seismic survey results and supported by the results of well completions and production in proximity to the Turner Bayou area over the past 40 years. This information provided confidence that the Austin Chalk within Pryme's Turner Bayou leases is highly prospective for oil. In addition, the results from wells drilled by Pryme in previous years supported the strong oil prospectivity of the area while highlighting the technical risks in drilling deep horizontal wells into this formation.

The Turner Bayou project continues to provide interesting exploration opportunities. In addition to the Austin Chalk formation, the project contains the Wilcox formation above the Chalk and the Tuscaloosa marine shale beneath it. Both of these formations have attracted considerable attention from oil and gas exploration companies in recent times and are worthy exploration targets. However, the disappointing commercial performance to date of the Turner Bayou project led to a strategic review of the company's business plan with a view to determining the best value-building strategies for the company.

An investigation of the Rosewood Plantation 21H well, the third deep horizontal well to be drilled in the Turner Bayou Chalk project, by the operator Pryme Energy, LLC (Pryme Energy) revealed that drilling fluids, solids, cuttings and other debris had been forced into the Austin Chalk formation during drilling of the well. Pryme Energy believes this has damaged the formation around the well bore and caused the well to significantly underperform. As a result, during the year Pryme Energy initiated legal action against Signa Engineering Corporation, who provided project management and engineering tasks related the well, to recover losses in connection with the formation damage and certain cost overruns.

Pryme's interest in the drilling of the Rosewood Plantation 21H well was funded by way of a debt facility provided by Macquarie Bank Limited and secured by Pryme's interest in the Turner Bayou Chalk project. The facility terms provided that the funding be non-recourse to any other assets of Pryme. Given the disappointing performance of the well Pryme and Macquarie Bank are working together to realise the security in a way that best serves the interests of both Pryme and the lender. To this end an acquisitions and divestitures specialist has been engaged to assist in maximising project value through a farm out, sale or combination of both. The key terms of the loan are shown in the table below:

Macquarie Bank Credit Facility	
Maximum loan amount	Loan amount capped at currently drawn amount of US$6.5m
Loan Security	Limited to the Turner Bayou project assets only – The company's other assets, including cash holding and other projects are excluded
Interest rate	2.00% p.a. payable monthly in arrears
Maturity date	28 February 2014 – May be extended if farm-in partner or purchaser obtained to close on acquisition – Negotiations underway to extend maturity date further by funding the installation of lift system on Rosewood Plantation 21H well
Other	The borrower has retained an acquisitions and divestitures specialist to assist in maximising project value through a farm-out or sale or combination of both through to the maturity date

Deshotels 20H and 13H Production (40% WI / 30% NRI)
Rosewood Plantation 21H (61.53% WI / 46.15% NRI)

An acid workover procedure has been carried out on the Rosewood Plantation 21H well in an attempt to break loose drilling fluids, solids, cuttings and other debris left in the well during drilling. Although, due to the formation damage incurred during completion, the well will never produce at targeted levels, it has responded positively to the workover and intermittent low level production has been achieved. It is now proposed to install a lift system (pump unit) to optimize production by smoothing out the erratic well performance and delivering more consistent oil sales. Progress on the lift system installation and the resulting production rates will be announced when available.

The average daily production rate for the Turner Bayou wells (combined) during the 2013 calendar year was 88 BOPD (29 BOPD net to Pryme). The net average production rate is slightly higher than 2012 due to production of oil from Rosewood Plantation 21H well during the 2013 year. Production has remained fairly stable on the Deshotels 13 and 20H wells despite the mechanical issues which impeded their effective completion. The average realised oil price for 2013 was US$106 per barrel.

The three production units within the Turner Bayou Chalk project hold approximately 3,360 acres (1,580 acres net to Pryme) by production and a further 16,942 acres (6,759 acres net to Pryme) in undeveloped acreage. Pryme's acreage is located in Avoyelles Parish, Louisiana.

Reserves

Pryme is pleased to provide a summary of its independent reserve estimates, effective January 1, 2014. The reserve estimates were determined by the Company's petroleum consultants in the United States, Petro Partners, Inc. (Petro Partners.)

Petro Partners have estimated the 1P (proved), 2P (probable) and 3P (possible) reserves and future revenue net to Pryme after mineral owner royalty in and related to various properties located in Louisiana and Mississippi. This report is based upon standard definitions set out by the Society of Petroleum Engineers, Petroleum Resources Management System, 2007 for all reserves classifications at prices and costs set forth herein.

As presented in the accompanying detailed projections by reservoir and by reserve category, Petro Partners estimate the net reserves and future net income based on Pryme's interest as of January 1, 2014 outlined below.

Reserve Category	Net Remaining Reserves		Future Net Income (M$)	
	Oil (MBO)	Natural Gas (MMCF)	Undiscounted	NPV10*
Proved (1P)				
Producing	116.2	120.6	5,817	4,254
Behind Pipe	53.0	0	3,464	1,830
Shut In	0.1	0	1	1
Undeveloped	510.1	1,086.6	17,465	5,458
Total Proved (1P)	**679.3**	**1,207.2**	**26,747**	**11,543**
Probable (2P)**				
Behind Pipe	3.4	0	174	92
Undeveloped	802.8	120.4	45,039	17,383
Total Probable (2P)**	**806.2**	**120.4**	**45,214**	**17,475**
Possible (3P)**	**25.6**	**0**	**1,616**	**531**

** Probable (2P) and possible (3P) reserves have not been discounted for the risk associated with future recovery*
*** NPV10 means net present value at a 10% discount*

The following is a table illustrating the reserves for the various project areas of Pryme.

Project	Proved (1P) Net			Probable* (2P) Net			Possible* (3P)		
	Oil (MBO)	Natural Gas (MMCF)	Oil Equivalent (MBOE)**	Oil (MBO)	Natural Gas (MMCF)	Oil Equivalent (MBOE)**	Oil (MBO)	Natural Gas (MMCF)	Oil Equivalent (MBOE)**
Four Rivers	179.4		179.4	3.3		3.3	25.6		25.6
Raven	20.7	1,141.0	207.8						
Turner Bayou	479.1	66.1	489.9	802.8	120.4	822.3			
Total	**679.3**	**1,207.2**	**877.1**	**806.2**	**120.4**	**825.6**	**25.6**		**25.6**

** Probable (2P) and possible (3P) reserves have not been discounted for the risk associated with future recovery*
*** Natural gas is converted to BOE on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.*

This is the first year that Pryme has included petroleum reserve estimates, accordingly there is no reconciliation against the previous year as required by Listing Rule 5.39.3. Pryme updates it's reserve estimates each half year.

Reserves (cont.)

Reserve Methodology and Assumptions

Oil volumes are generally expressed in thousands of stock tank barrels (MBO), where one barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of standard cubic feet (MMCF) at 60 degrees Fahrenheit and the contract pressure base.

Net income is determined by deducting from revenue production taxes, mineral royalties, future capital costs and operating expenses. The net present value of future income has been determined at a discount rate of 10%.

Oil and gas prices are based on NYMEX Futures Pricing as at December 5, 2013, starting at US$97.38 per barrel for oil in January 2014, declining to US$78.60 per barrel in December 2021 and constant thereafter, and US$4.13 per MCF of natural gas in January 2014, rising to US$5.52 per MCF in December 2022 and constant thereafter. Prices were also adjusted to account for transportation costs, basis difference and gravity where available.

Operating costs are based on actual expenses, as provided by Pryme. Petro Partners did not confirm the accuracy of these expenses. The expense estimates were held constant through the life of the property. Capital costs used were furnished by Pryme.

Reserve estimates were made by performance, pore-volume analysis and analogy methods. The reserves presented in this report are estimates only and should not be construed as being exact quantities. They may or may not be recovered and, if recovered, the revenues, costs, and expenses therefrom may be more or less than the estimated amounts.

Because of governmental policies, uncertainties of supply and demand, and international politics, the actual sales rates and the prices actually received for the reserves, as well as the costs of recovery, may vary from the assumptions included in this report. In addition, estimates of reserves may increase or decrease as a result of future operational decisions, mechanical problems, the price of oil and gas and / or economic limits due to the latter.

All reserve estimates have been carried out in accordance with sound engineering principles and generally accepted industry practice. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering data and all conclusions only represent informed professional judgments.

The titles to the properties have not been examined by Petro Partners, nor has the actual degree or type of interest owned been independently confirmed. The data used in the estimates were obtained from Pryme and from other sources which provide publicly accessible data and are considered accurate.

Reserve Certification

The information in this report has been compiled by the President of Petro Partners Inc. of Lafayette Louisiana, Kim Galjour, who has over 37 years experience in petroleum engineering. Mr. Galjour holds a Bachelor of Science Degree in Petroleum Engineering from Louisiana State University and has completed two years of graduate study in Business Administration at Nicholls State University. He is a member of Society of Petroleum Engineers, American Petroleum Institute, American Association of Petroleum Geologists and Lafayette Association of Petroleum Landmen.

Mr Galjour consents to the inclusion of the estimated hydrocarbons in place in the form and context in which they appear. The resource estimates contained in this report are in accordance with the standard definitions set out by the Society of Petroleum Engineers, Petroleum Resources Management System, 2007. Further information is available at www.spe.org.

Mr. Galjour has been commissioned as an independent consultant to Pryme and has no interest in Pryme securities nor has any interest in any of the projects in which Pryme is involved.

Oil and Gas Tenements

	Project	Location	Interest acquired or disposed of during the quarter	Total acres (net to Pryme)	Interest held as at 31 December 2013
Petroleum Tenement	Raven	Lincoln Parish, Louisiana	-	1,280 acres (440 acres)	35%
	Four Rivers	LaSalle and Catahoula Parishes, Louisiana; Jefferson & Wilkinson Counties, Mississippi	-	1,260 acres (240 acres)	19%
	Turner Bayou	Avoyelles Parish, Louisiana	-	20,302 acres (8,339 acres)	40%

Notes: *Unless stated above no tenements were acquired or disposed during the quarter. Pryme confirms that unless stated above no changes of beneficial interests held in farm-in or farm-out agreements as at the end of the quarter*

Appendix

Competent Person Statement and Disclaimer

Unless otherwise stated specifically throughout this report reserves or prospective resources have been prepared by Mr Robert H. Patterson, a petroleum engineer who is a qualified petroleum reserves and resource evaluator as defined under ASX Listing Rule 5.41. Mr Patterson holds a Bachelor of Science in Chemical Engineering and has over 30 years' experience in engineering studies, evaluation of oil and gas properties, drilling, completion, production and process engineering of oil and gas operation and evaluation of properties in the USA. Mr Patterson has consented to the use of the reserve and/or prospective resource figures in this announcement. Mr Patterson is a member of the Society of Petroleum Engineers and is a registered Professional Engineer in the state of Texas.

Technical information contained in this presentation in relation to the projects of the Company have been reviewed by Mr Greg Short, BSc. Geology (Hons), a Director of Pryme who has more than 33 years' experience in the practise of petroleum geology. Mr Short consents to the inclusion in this presentation of the information in the form and context in which it appears.

This report contains "forward-looking statements". Such forward-looking statements include, without limitation: estimates of future earnings, the sensitivity of earnings to oil and gas prices and foreign exchange rate movements; estimates of future oil and gas production and sales; estimates of future cash flows, the sensitivity of cash flows to oil and gas prices and foreign exchange rate movements; statements regarding future debt repayments; estimates of future capital expenditures; estimates of reserves and statements regarding future exploration results and the replacement of reserves; and where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to oil and gas price volatility, currency fluctuations, increased production costs and variances in reserves or recovery rates from those assumed in the company's plans, as well as political and operational risks in the countries and states in which we operate or sell product to, and governmental regulation and judicial outcomes. For a more detailed discussion of such risks and other factors, see the Company's Annual Reports, as well as the Company's other filings. The Company does not undertake any obligation to release publicly any revisions to any "forward looking statement" to reflect events or circumstances after the date of this release, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

Corporate Governance Statement

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

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

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

Pryme ensures, wherever possible, that its practices are consistent with the Second Edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Principles and Recommendations as amended in June 2010 (ASX Principles).. In certain circumstances, due to the size and stage of development of Pryme, it may not be practicable or necessary to implement the ASX Principles in their entirety. Pryme's statement of conformity to the ASX Principles is set out below, areas of divergence are noted.

Principle 1 – Lay solid foundations for management and oversight

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

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

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

Executives are provided with a formal job description and an employment contract describing their term of appointment, duties, rights, responsibilities and rights on termination. Executives are subject to a formal performance review process on an annual basis. The focus of the review is to measure performance against qualitative and quantitative key performance indicators which, where appropriate, are linked to long term incentive components of each executive's remuneration package. This ensures objectives are aligned to Pryme's business plan. The formal performance review process was undertaken during 2013.

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

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

Principle 2 – Structure the Board to add value

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

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

It is intended that the composition of the Board be balanced, with Directors possessing an appropriate mix of skills, experience, expertise, qualifications and contacts relevant to Pryme's business. The qualifications, experience and tenure of the Directors are set out in the 2013 Directors' Report. The Board Charter and the Remuneration & Nomination Committee Charter outline in more detail the procedure for the selection and appointment of new directors.

The Board considers that independent decision-making is critical to effective governance. Independent directors

Corporate Governance Statement (cont.)

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

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

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

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

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

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

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

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

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

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

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

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

Details of the Committee members' attendance at Committee meetings are set out in the 2013 Directors' Report.

The Board typically carries out a Board performance assessment on an annual basis where the performance of the Chairman is reviewed and assessed by the other Directors, and the Chairman reviews and assesses the performance of the other Directors.

During the year under review, the Board conducted a self assessment. The outcomes of this self assessment have formed the basis for a series of matters arising which the Board will discuss and address over the short to medium term. The Board conducts formal strategy sessions as appropriate to provide the opportunity for Directors and management to review operations and consider

Corporate Governance Statement (cont.)

proposed future activities. Given the size of the Board and management team there are also frequent opportunities for less formal strategy discussions.

Principle 3 – Promote ethical and responsible decision-making

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

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

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

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

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

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

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

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

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

Whole organisation: 41%
Senior Management: 33%
Pryme Board: NIL

Principle 4 – Safeguard integrity in financial reporting

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

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

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

Details of the Committee members' attendance at Committee meetings are set out in the 2013 Directors' Report.

The Audit Committee is responsible for reviewing the nomination, performance and independence of the external auditors. Candidates for the position of external auditor of Pryme must be able to demonstrate complete

Corporate Governance Statement (cont.)

independence from Pryme and an ability to maintain independence throughout the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis. Other than this mandatory criteria the Board may select an external auditor based on criteria relevant to the business of Pryme such as experience in the industry in which Pryme operates, references, cost and any other matters deemed relevant by the Board.

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

Principle 5 – Make timely and balanced disclosure

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

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

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

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

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

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

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

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

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

Principle 6 – Respect the rights of shareholders

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

Pryme is committed to:

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

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

Shareholder communication is conducted in accordance with the Pryme Continuous Disclosure Policy and Shareholder Communication Policy, both of which are published on the Pryme website.

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

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

- Corporate Governance Statement
- Board Charter
- Audit Committee Charter
- Remuneration and Nomination Committee Charter
- Code of Conduct and Ethics
- Continuous Disclosure Policy
- Risk Management Policy

Corporate Governance Statement (cont.)

- Shareholder Communications Policy
- Securities Trading Policy
- Environmental Management, Health and Safety Policy

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

Principle 7 – Recognise and manage risk

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

The Board has implemented the following control framework:

> *Financial reporting:* A comprehensive budget is approved by the Board. Monthly results are reported against budget and revised forecasts are prepared regularly;
>
> *Special functional reporting:* The Board has identified a number of key areas which are subject to regular reporting to the Board such as safety, environmental, insurance and operational matters; and
>
> *Investment appraisal:* The Board has set clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements. Capital expenditure and revenue commitments that exceed a delegated authority will require prior Board approval. Procedures have been established to ensure business transactions are properly authorised and executed. Compliance with these procedures may be scrutinised by the external auditor.

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

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

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

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

Principle 8 – Remunerate fairly and responsibly

As described previously, the Remuneration & Nomination Committee has been established to review all remuneration and performance related matters of Pryme and to operate in accordance with its Charter. As also previously noted, the Committee composition does not fully comply with Recommendation 8.2 which recommends that the Committee is comprised of at least three members with majority of them being independent. However given the size of the Company and the stage of its development, the Board considers the Committee to be of sufficient size and independence to perform its functions effectively.

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

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

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

Corporate Governance Statement (cont.)

talented and motivated directors and employees. The structure of executive remuneration is distinctly different to that of Non-executive Directors which is detailed in the Remuneration Report. The policy is designed for:

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

(b) decisions in relation to executive remuneration packages;

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

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

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

The Remuneration Report for the 2013 year and further details about the Remuneration Policy of Pryme are set out in the 2013 Directors' Report.

Directors' Report

In accordance with a resolution of directors, the directors present their report together with the Financial Report of Pryme Energy Limited (Pryme) and its wholly owned subsidiaries (together referred to as the Consolidated Group) for the financial year ended 31 December 2013 and the Independent Audit Report thereon. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

1. Directors

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

(a) George Lloyd – Chairman

Independent Non–Executive Director (Appointed 29 January 2008)

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

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

He also holds directorships in the following ASX listed companies:

- Cape Alumina Limited (Chairman, appointed January 2009); and
- Ausenco Limited (Non-Executive Director, appointed May 2005; Chairman, appointed May 2013).

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

Executive Director (Appointed 1 December 2005)

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

Mr Pettett has over 19 years experience at a Managing Director and CEO level of medium sized businesses, the last 13 specifically in the oil and gas industry focused primarily in the United States. He has drilled over 140 wells in Louisiana and Texas, resulting in the discovery of new oil fields. He has also participated in the drilling of conventional natural gas wells in Oklahoma and co-managed the development of a 27 well coal bed methane field.

Mr Pettett has widespread experience and knowledge from a field level through to the board room covering many facets of the energy industry including acquisitions and development, financial analysis, business development, investor relations, capital aggregation and financial and administrative management.

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

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

(c) Ryan Messer – Executive Director and Chief Operating Officer

Executive Director (Appointed 1 December 2005)

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

Mr. Messer has thirteen years of executive management level experience in oil and gas exploration and production. His main focus has been in the area of oil and gas production economics, managing field and land rig operations as well as certain engineering based operations gained from managing several mid-sized US oil and gas projects and over 140 tests. Previous to this he was responsible for the management of a CBM development play in the Cherokee Basin, Oklahoma and the building of its midstream infrastructure.

Directors' Report (cont.)

Mr. Messer has a wide range of experience out of the field including acquisitions and divestment, business development, presenting technical information, project management and building technical teams.

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

(d) Gregory Short

Independent Non – Executive Director (Appointed 21 January 2010)

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

Mr Short is a geologist with over 40 years experience in petroleum exploration, initially as a production and operations geologist then rapidly advancing to supervisory and management positions. His experience includes 15 years overseas in senior exploration management positions in the USA, Europe and Africa. In the USA he was responsible for all of Exxon's petroleum exploration activities which included onshore and offshore GulfCoast exploration.

Mr Short has a strong technical grounding in exploration, development and production geoscience, exploration operations, joint venture management, government relations, budgeting, contract and project management, and people management.

He also holds directorships in the following ASX listed companies:

- MEO Australia Limited (Non-Executive Director, appointed July 2008); and
- Po Valley Energy (Non-Executive Director, appointed July 2010)
- Metgasco Limited (Non-Executive Director, appointed August 2013).

2. Company Secretary

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

3. Principal Activities

The principal activities of the Consolidated Group during the year under review were evaluating, 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. Details of Pryme's exploration activities are specified in the "Projects" section of the annual report. During the year $2,265,727 (2012: $6,435,412) was invested in exploration, evaluation and development activities. This investment was principally in the completion of the Rosewood 21H well in the Turner Bayou project.

4. Review of Operations and Financial Results

A review of, and information about, the Consolidated Group's operations, including the results of those operations and changes in its state of affairs during the year together with the information about the financial position of the Consolidated Group appears in the 2013 Annual Report. There are no other significant changes in the state of affairs of the Consolidated Group.

Revenue of the Consolidated Entity from production of oil and gas for the year ended 31 December 2013 was $2,602,872 (2012: $2,759,957). The decrease reflects natural decline in production for Turner Bayou, LaSalle, Four Rivers and Raven. The average oil price received for the year was US$105 per Bbl (2012: US$106 per Bbl) with total revenue from oil sales attributable to the following producing assets: Four Rivers 49% (2012: 53%), Turner Bayou 45% (2012: 44%), Raven 6% (2012: 3%). The average gas price received for the year was US$3.23 per Mcf (2012: US$2.18per Mcf).

For the year ended 31 December 2013, the Company has recorded a loss from operations of $20,094,093 (2012: $3,836,383). Total Comprehensive Income for the Company for the period was a loss of $17,785,610 (2012: $4,276,017) including a gain of $2,248,483 (2012: Loss $439,634) arising on translation of foreign operations. Included in the loss is an amount of $16 million which relates to the impairment of the Turner Bayou project.

Directors' Report (cont.)

In 2012 Pryme Oil and Gas LLC, Pryme's Energy Limited's wholly-owned subsidiary which holds Pryme's interest in the Turner Bayou project, executed a Term Loan Facility (Term Facility) with Macquarie Bank Limited (Macquarie Bank) to fund its share of exploration and development costs for the Turner Bayou project in Louisiana, USA. The Term Facility is secured against the assets of Pryme Oil and Gas LLC and is non-recourse to the parent company, Pryme Energy Limited, and all other projects and subsidiaries of Pryme.

During the year Pryme Oil and Gas LLC negotiated an extension of the Term Facility following problems encountered in drilling the Rosewood Plantation 21H well. The existing extension provides for the funding to remain in place to 28 February 2014 with a further renegotiation expected to be agreed at that time whilst the parties continue activities with respect to a farmout of an interest in the project to third parties. The impairment in June 2013 resulted in the Turner Bayou project being written down to $9.3m which equates to the amount owing under the Term Facility of $7.6m (see Note 15) plus accrued project costs of $1.7m. Whilst it is the intention of Pryme Oil and Gas LLC to further renegotiate the Term Facility and resolve the funding shortfall in a manner that preserves the value in the Turner Bayou project, the decision by the Company to write down the value of the project is a conservative view in recognition that Pryme's interest in the Turner Bayou project may at some time be relinquished in settlement of the loan and accrued costs.

For the year ended 31 December 2013, the Company has recorded negative cash flows from operations of $523,533 (2012: negative $607,576).

5. Events Subsequent to Reporting Date

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

As announced to the ASX on 11 February, the Company has secured the right to earn an interest in 9,333 mineral acres located in an active region of the Cline Shale resource play in the Eastern Shelf of the Permian Basin, Texas USA. The key terms of the Farm in Agreement are as follows:

- Payment of US$100,000 cash plus agreement to issue 6 million Pryme shares to secure the project.
- Pryme will drill 9 vertical wells and 1 horizontal well into the primary targets and make cash payments to the vendors, to earn a total working interest of 75% (56.25% NRI) in the project's 9,333 acres to all depths from the surface to the top of the Cline Shale (7,000 net acres to Pryme) and a 50% WI (37.5% NRI) in all depths below the top of the Cline Shale (4,666 net acres to Pryme).
- Pryme will earn its interest in the project proportionately through the drilling of the 10 wells at the rate of a 7.5% WI from the surface to the top of the Cline Shale and a 5.0% WI below the top of the Cline Shale for each well drilled.
- The commitment to drill wells and make cash payments over the next 2 years is at the sole discretion and option of Pryme thereby aligning payments to the vendor and commitments to drill wells to the success of the project.

As announced to the ASX on 14 March 2014, the Company intends to raise additional capital by undertaking a 1 for 1 non-renounceable rights issue at $0.02 per share to raise up to $5.9 million.

Directors' Report (cont.)

6. Likely Developments

The Consolidated Group intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America. The strategies and objectives of the Consolidated Group are reviewed and discussed in greater detail in the 2013 Annual Report.

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

7. Environmental Regulations and Performance

The Consolidated Group has various permits and licenses to operate in the United States of America. There have been no significant known breaches of the Consolidated Group's licence or permit conditions. Furthermore, no government agency has notified the Consolidated Group of any environmental breaches during the period ended 31 December 2013.

8. Dividends

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

9. Options and Rights

Unissued Shares Under Option

As announced to the ASX on 17 December 2012, the company raised $1,308,000 through a placement of 16,350,000 shares and 8,175,000 unlisted options with an exercise price of $0.15 on the basis of one free option for every two new shares. The options expired on 30 November 2013. In addition, 1,346,250 unlisted options were issued on 8 January 2013 in lieu of brokerage fees paid in cash in relation to the placement announced on 17 December 2012. These options also expired on 30 November 2013. Accordingly, the unissued shares under option at the date of this report are as follows:

	Date of Issue	Held at 1 Jan 2012	Granted	Exercised	Expired	Held at the 31 December 2013	Vested during the year	Vested and exercisable as at 31 December 2013
Issued to placement shareholders	17 Dec 2012	8,175,000	-	-	(8,175,000)	-	-	-
Issued in lieu of brokerage fees	2 Jan 2013	-	1,346,250	-	(1,346,250)	-	-	-

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

As at 31 December 2012, there were 965,501 unissued ordinary shares of Pryme that may be allocated upon conversion of Performance Rights/Restricted Stock Units. Subject to the applicable tenure conditions being satisfied, the timing for vesting of the shares is as follows:

	Vesting Date	Number of Shares
2010 Long Term Incentive Plan	01 January 2013	965,501
Total		**965,501**

As announced to the ASX on 7 January 2013, 965,501 Performance Rights and Restricted Stock Units shown above were due to vest on 1 January 2013. These Performance Rights and Restricted Stock Units subsequently vested and were converted to ordinary shares on 7 January 2013 and accordingly there are no unissued shares to be allocated upon conversion of Performance Rights and Restricted Stock Units as at 31 December 2013.

Directors' Report (cont.)

10. Directors' Meetings

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

	Board Of Directors		Audit Committee (#)		Remuneration& Nomination Committee(##)	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
George Lloyd	12	12	2	2	1	1
Justin Pettett	12	12	2(#)	2(#)	1(##)	1(##)
Ryan Messer	12	12	2(#)	2(#)	1(##)	1(##)
Greg Short	12	12	2	2	1	1

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

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

11. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2013 are as follows:

Director	Ordinary Shares	Entitlement to Ordinary Shares[1]	American Depository Receipts
Justin Pettett	4,626,575	-	-
Ryan Messer	4,469,513	-	111[2]
George Lloyd	4,417,144	-	-
Greg Short	860,000	-	-

1 Further information on securities granted to directors as part of their remuneration is set out in Note 5 of the Financial Statements.

2 Equivalent to 11,100 ordinary shares.

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

12. Remuneration Report

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

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

Remuneration Policies and Practices

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

Directors' Report (cont.)

Non-Executive Director Remuneration

The Non-Executive Directors are remunerated as described below.

Fees

Non-executive director fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders at a general meeting. The current limit is $300,000. During the year ended 31 December 2013, $210,744 (2012: $228,438) of the fee pool was used. The non-executive directors proposed a temporary reduction to their fees during the year as one of a number of initiatives to conserve cash. The proposal was accepted by the Board.

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

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

Executive Remuneration

At Pryme, Executive Remuneration may consist of several components:

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

Total Reward Mix

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

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

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

Fixed Remuneration

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

Directors' Report (cont.)

At-Risk Remuneration

Clear and focused performance targets for management are critical to the success of the Company. Nevertheless, the financial position and performance of the Company in any year is paramount to the board's decision whether or not to offer either or both of the at-risk components of the TR in any given year. For the 2013 year, no STI or LTI goals were established and no LTI equity delivered.

Relationship between Policy and Pryme's Performance

Having regard to the prevailing financial position and performance of the Company at the appropriate time, the Board believes that remuneration arrangements for employees should typically incorporate an "at-risk" component which is performance related and rewards employees for the achievement of goals which contribute to shareholder wealth. Such arrangements should both incentivise and reward employees for out-performance and are designed to put a portion of executive remuneration "at-risk" and provide reasonable levels of incentives to key executives to encourage and reward performance that adds value to the Company for all Shareholders.

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

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

The Board believes that multiple tests set having specific regard to the key drivers of the Company at the time, if achieved, will demonstrably aid the creation of shareholder value.

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

Anti-Hedging Policy

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

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

Continuous Improvement

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

Directors' Report (cont.)

REMUNERATION SUMMARY

		SHORT TERM		POST EMPLOYMENT	EQUITY BASED PAYMENTS [1]		TOTAL	Proportion of Remuneration Performance Related
		CASH, SALARY & FEES	RELATED PARTY FEES	SUPERANNUATION	OPTIONS	RIGHTS		
		$	$	$	$	$	$	%
NON-EXECUTIVE DIRECTORS								
George Lloyd	2013	-	143,474	-	-	-	143,474	-
	2012	-	156,300	-	-	-	156,300	-
Greg Short	2013	61,650	-	5,620	-	-	67,270	-
	2012	66,182	-	5,956	-	-	72,138	-
EXECUTIVES								
Justin Pettett	2013	362,797	-	16,921	-	-	379,718	-
	2012	363,432	-	16,068	-	5,514	385,014	1
Ryan Messer	2013	155,838	119,665	-	-	-	275,503	-
	2012	145,295	111,568	-	-	5,514	262,377	2
TOTAL	**2013**	**580,285**	**263,139**	**22,541**			**865,965**	
	2012	**574,909**	**267,868**	**22,024**	**-**	**11,028**	**875,829**	

1 Total Directors' remuneration includes amounts paid in cash or cash equivalents and amounts attributable to the expensing of rights granted pursuant to the Pryme Energy Long Term Incentive Plan in accordance with Australian Accounting Standard AASB2 – Share-based payments. AASB2 requires securities to be expensed over the performance period of the security, from the date of the grant and despite the fact that the vesting conditions related to continuity of tenure are yet to be attained.

SUMMARY OF KEY CONTRACTS TERMS

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

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

Directors' Report (cont.)

OPTIONS AND RIGHTS AS REMUNERATION

During the year ended 31 December 2013, no performance rights (RSUs for US residents which have similar value characteristics) were awarded as remuneration under the Pryme Energy Long Term Incentive Plan ("LTIP"). Details of movements in performance rights/RSUs provided as remuneration in prior years are as follows:

2013	Date of Grant	Number of Rights held at 1 January 2013	Rights granted in current financial year	Rights vested in current financial year	Number of Rights held at 31 December 2013	Vesting Date	Fair Value per Right at Grant Date	Market Value per Right at Vesting Date
Justin Pettett	31 Dec 10	436,893	-	436,893	-	1 Jan 2013	$0.03	$0.11
Ryan Messer	31 Dec 10	436,893	-	436,893	-	1 Jan 2013	$0.03	$0.11

2012	Date of Grant	Number of Rights held at 1 January 2012	Rights granted in current financial year	Rights vested in current financial year	Number of Rights held at 31 December 2012	Vesting Date	Fair Value per Right at Grant Date	Market Value per Right at Vesting Date
Justin Pettett	31 Dec 09	257,968	-	257,968	-	1 Jan 2012	$0.059	$0.029
	31 Dec 10	436,893	-	436,893	-	1 Jan 2012	$0.034	$0.029
	31 Dec 10	436,893	-	-	436,893	1 Jan 2013	$0.034	n/a
Total		**1,131,754**	**-**	**694,861**	**436,893**			
Ryan Messer	31 Dec 09	257,968	-	257,968	-	1 Jan 2012	$0.059	$0.029
	31 Dec 10	436,893	-	436,893	-	1 Jan 2012	$0.034	$0.029
	31 Dec 10	436,893	-	-	436,893	1 Jan 2013	$0.034	n/a
Total		**1,131,754**	**-**	**694,861**	**436,893**			

Estimated Value Range of Awards

The maximum possible value of awards yet to vest to be disclosed under the Australian Corporations Act 2001 is not determinable as it is dependent on, and therefore fluctuates with, the share price of Pryme Energy Limited at a date that any award is exercised. An estimate of a maximum possible value of awards can be made using the highest share price during FY2013, which was $0.13. (FY 2012: $0.11) multiplied by the number of shares awarded for the scheme.

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

As announced on 7 January 2013, 965,501 performance rights and restricted stock units shown above vested on 1 January 2013 and converted to ordinary shares on a one-for-one basis on 7 January 2013.

Directors' Report (cont.)

13. Indemnification and Insurance of Officers and Auditors

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

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

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, PricewaterhouseCoopers have the benefit of an indemnity to the extent they reasonably rely on information provided by Pryme which is false, misleading or incomplete. No amount has been paid under this indemnity during the financial year ending 31 December 2013 or to the date of this Report.

14. Non-Audit Services

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

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

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

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

The auditor's independence declaration under section 307C of the Corporations Act set out in the Annual Report forms a part of the Annual Financial Report for the year ended 31 December 2013.

15. Proceedings on behalf of the Consolidated Group

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

16. Corporate Governance

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

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

Justin Pettett
Managing Director
Brisbane, Queensland
14 March 2014

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Pryme Energy Limited for the year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

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

Craig Thomason
Partner
PricewaterhouseCoopers

Brisbane
14 March 2014

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated Group	
		2013 $	2012 $
Revenue	3	2,602,872	2,759,957
Production Costs	3	(1,049,399)	(956,303)
Gross Profit		1,553,473	1,803,654
Accounting and Audit Fees		(164,997)	(150,126)
Depreciation and amortisation expenses and write offs	3	(18,807,062)	(3,457,115)
Directors Remuneration		(602,827)	(607,530)
Directors Remuneration – Share/Option Plan		-	(11,028)
Professional Consulting Fees		(362,462)	(474,133)
Employee Benefits Expense		(252,439)	(394,076)
Travel and Accommodation Expenses		(130,216)	(161,328)
Other expenses		(651,832)	(411,917)
Gain/(Loss) on Sale of Assets		(37,916)	203,366
Finance Expenses		(577,815)	(176,150)
Loss before income tax		**(20,034,093)**	**(3,836,383)**
Income tax expense	4	-	-
Loss for the year		**(20,034,093)**	**(3,836,383)**
Other Comprehensive Income			
Net gain/(loss) foreign currency translation reserve		2,248,483	(439,634)
Income tax related to comprehensive income		-	-
Total Comprehensive Loss for the year		**(17,785,610)**	**(4,276,017)**
Net Profit/(Loss) attributable to members of the parent entity		(17,785,610)	(4,276,017)
Total Comprehensive Loss attributable to members of the parent entity		(17,785,610)	(4,276,017)
Basic earnings per share (cents per share)	7	(7.0)	(1.5)
Diluted earnings per share (cents per share)	7	(7.0)	(1.5)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	Consolidated Group	
		2013 $	2012 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	1,556,605	2,074,453
Trade and other receivables	9	367,957	352,283
Other current assets		33,232	49,697
TOTAL CURRENT ASSETS		**1,957,794**	**2,476,433**
NON-CURRENT ASSETS			
Property, plant and equipment	11	26,628	40,191
Working Interest	13	12,991,469	24,912,419
TOTAL NON-CURRENT ASSETS		**13,018,097**	**24,952,610**
TOTAL ASSETS		**14,975,891**	**27,429,043**
CURRENT LIABILITIES			
Trade and other payables	14	2,374,202	469,464
Borrowings	15	7,553,988	5,097,691
TOTAL CURRENT LIABILITIES		**9,928,190**	**5,567,155**
NON-CURRENT LIABILITIES			
Provisions		149,773	109,988
TOTAL NON-CURRENT LIABILITIES		**149,773**	**109,988**
TOTAL LIABILITIES		**10,077,963**	**5,677,143**
NET ASSETS		**4,897,928**	**21,751,900**
EQUITY			
Issued capital	16	46,140,094	45,160,032
Reserves	17	(3,622,987)	(5,823,046)
Accumulated losses		(37,619,179)	(17,585,086)
TOTAL EQUITY		**4,897,928**	**21,751,900**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Ordinary Share Capital $	Accumulated Losses $	Foreign Currency Translation Reserve $	Options Reserve $	Total $
Consolidated Group					
Balance at 1 January 2012	43,817,369	(13,762,203)	(5,431,836)	99,770	24,723,100
Total Comprehensive Loss for the year	**-**	**(3,836,383)**	**(439,634)**	**-**	**(4,276,017)**
Transactions with owners in the capacity as owners:					
Shares issued during the year	1,363,400	-	-	-	1,363,400
Share capital raising cost	(86,216)	-	-	15,597	(70,619)
Long Term Incentive Plan rights issued during the year	-	-	-	12,036	12,036
Transfer from options reserve to share capital	65,479	-	-	(65,479)	-
Transfer from retained earnings: lapsed options	-	13,500	-	(13,500)	-
Balance at 31 December 2012	**45,160,032**	**(17,585,086)**	**(5,871,470)**	**48,424**	**21,751,900**
Total Comprehensive Loss for the year	**-**	**(20,034,093)**	**2,248,483**	**-**	**(17,785,610)**
Transactions with owners in the capacity as owners:					
Shares issued during the year	987,223	-	-	-	987,223
Share capital raising cost	(39,988)	-	-	(15,597)	(55,585)
Transfer from options reserve to share capital	32,827	-	-	(32,827)	-
Balance at 31 December 2013	**46,140,094**	**(37,619,179)**	**(3,622,987)**	**-**	**4,897,928**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated Group	
		2013 $	2012 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,628,345	2,723,496
Interest received/(paid)		(167,046)	(299,475)
Payments to suppliers and employees		(2,984,832)	(3,031,597)
Net cash provided by (used in) operating activities	21(a)	**(523,533)**	**(607,576)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of working interest, property, plant and equipment		35,534	1,602,302
Purchase of property, plant and equipment		(2,013)	(60,493)
Payment for working interest		(2,265,727)	(6,435,412)
Net cash provided by (used in) investing activities		**(2,232,206)**	**(4,893,603)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares (net of capital raising costs)		931,638	1,292,780
Proceeds from borrowings (net of repayments)		1,179,501	1,066,847
Net cash provided by (used in) financing activities		**2,111,139**	**2,359,627**
Net increase (decrease) in cash held		(644,600)	(3,141,552)
Cash at beginning of financial year		2,074,453	5,232,537
Effect of exchange rate movement		126,752	(16,532)
Cash at end of financial year	8	**1,556,605**	**2,074,453**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2013 affected any of the amounts recognised in the current period or any prior period. However, amendments made to AASB101 Presentation of Financial Statements effective 1 July 2012 requires the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit and loss in a future period and those that may have to be reclassified if certain conditions are met.

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

Basis of Preparation

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

Consistent with other oil and gas exploration companies, Pryme raises capital to fund its exploration activities as required. The ability of the Company to continue as a going concern and meet its debts and commitments as they fall due is dependent upon the Company securing sufficient capital which may be in the form of (or some combination of) the following:

- Entering in to arrangements to farm out or sell existing projects/assets;
- Establishing new debt funding; and/or
- Extending existing debt funding or
- Raising equity from new/existing shareholders.

For the year ended 31 December 2013, the Company has recorded a loss from operations of $20,034,093 (2012: $3,836,383) and a cash outflow from operating activities of $523,533 (2012: $607,576). Included in the loss is a non cash amount of $18,807,062 comprising an amount of $16 million related to the impairment of the Turner Bayou project (see Note 13) and depletion, depreciation and amortisation of $2.8 million (see Note 3). The Consolidated Entity has net current liabilities of $7,970,396 at 31 December 2013. However this amount includes $7,553,988 in relation to the term facility that is non-recourse to the parent company, Pryme Energy Limited, and all other projects and subsidiaries of Pryme. In addition, net current liabilities include an accrual for costs of $1,873,843 relating to the Rosewood 21H well drilled in the Turner Bayou project. Liability for these costs is limited to the Turner Bayou project assets owned by Pryme Oil and Gas LLC (see Note 14(a)). After adjusting for these liabilities, the Consolidated Entity has net current assets of $1,457,435.

The Group's cashflow forecast indicates that additional funds are required to finance exploration activities, (including those referred to in Note 22) and working capital requirements. As announced to the ASX on March 14 2014 the Company intends to raise additional capital by undertaking a 1 for 1 non-renounceable rights issue at $0.02 per share to raise up to A$5.9 million. Since the additional funding is not yet secured there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. The directors believe that the Company will be successful in securing sufficient capital and accordingly have prepared the report on a going concern basis. This is the case, regardless of whether Pryme continues to own and operate the Turner Bayou project or if it is relinquished in settlement of the Macquarie Bank Term Facility. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 31 December 2013. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Accounting Policies

(a) Principles of Consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 10 to the financial statements.

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

Joint Arrangements

Under *AASB 11 Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses.

Interests in joint operations are accounted for using the proportional consolidation method whereby the Group's proportionate interest in the assets, liabilities, revenues and expenses of the joint operation are recognised within each applicable line item of the financial statements. Details of the Group's joint operations are set out in Note 12.

(b) Income Tax

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

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

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

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

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

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

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

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

(c) Property, Plant and Equipment

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Plant and equipment

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

Depreciation

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

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

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

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

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

(d) Exploration and Development Expenditure

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

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

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

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

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

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

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

(e) Leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

(f) Financial Instruments

Recognition and Initial Measurement

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

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

Derecognition

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

Classification and Subsequent Measurement

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

ii. *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method. They are included in current assets except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

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

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

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

Fair value

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

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(g) Impairment of Assets

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

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

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

(h) Investments in Associates

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

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

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

(j) Employee Benefits

Short term obligations

Liabilities for salary and wages, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits.

Long term obligations

Liabilities for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of estimated future cash outflows to be made for those benefits. The obligations are presented as current liabilities if there is not an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(k) Borrowings

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

Borrowings are included in current liabilities except for those with maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

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

(l) Provisions

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

(m) Cash and Cash Equivalents

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

(n) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable. Amounts received are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group uses the sales method to account for sales of crude oil and natural gas revenues. Under this method, revenues are recognised based on volumes of oil and gas sold to purchasers. The group recognises revenue when it can be reliably measured, it is probably that the future economic benefits will flow to the entity.

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

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

(o) Goods and Services Tax (GST)

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

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

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

(p) Comparative Figures

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

(q) EPS

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(r) Segment Reporting

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

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits and accrued expenses. Segment assets and liabilities do not include deferred income taxes.

(s) Trade Receivables

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

(t) Trade Payables

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are included in current liabilities except for those with maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

(u) Contributed Equity

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

Critical Accounting Estimates and Assumptions

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

Impairment

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

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

Restoration Obligations

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

Reserves Estimates

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 2 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures (effective for annual reporting periods beginning on or after 1 January 2015]

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will have no impact on the Group's accounting for financial assets.

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

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

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

AASB 2012-3 Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements.

The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. These may result in additional disclosures if the group recognises and impairment loss or the reversal of an impairment loss during the period. The y will not affect any of the amounts recognised in the financial statements. The group intends to apply the amendment from 1 July 2014.

Annual Improvements to IFRSs 2010-1012 and 2011-2013 cycle (effective 1 July 2014)

In December 2103, the IASB approved a number of amendments to International Financial reporting Standards as a result of the annual improvements project. While the AASB has not yet made equivalent amendments to the Australian Accounting Standards, they are expected to be issued in the first quarter of 2014. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 3 REVENUE AND EXPENDITURE FOR YEAR

REVENUE

	Consolidated Group	
	2013	2012
	$	$
Sales Revenue		
Oil and gas revenue	2,539,121	2,706,264
Total Sales Revenue	2,539,121	2,706,264
Other Revenue		
Operator Fees	23,478	4,938
Interest	40,273	48,755
Total Other Revenue	63,751	53,693
Total Sales Revenue and Other Revenue	**2,602,872**	**2,759,957**

EXPENDITURE

	Consolidated Group	
	2013	2012
	$	$
Production costs – oil and gas	1,049,399	956,303
	1,049,399	**956,303**
Depreciation and amortisation	30,588	16,682
Depletion of working interest	2,778,341	2,743,025
Capitalised exploration expenditure write-off	-	697,408
Impairment	15,998,133	-
Total Depreciation, Amortisation and Write-offs	**18,807,062**	**3,457,115**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 4 INCOME TAX EXPENSE

	Consolidated Group	
	2013 $	2012 $
a. The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2012: 30%)		
— consolidated group	(6,010,228)	(1,150,915)
Add:		
—Non-allowable items	17,603	22,717
—Share options expensed during year	-	3,611
Less:		
—Tax deductible equity raising costs	(41,537)	(62,566)
—Other deductible amounts	(18,000)	-
	(6,052,162)	(1,187,153)
Current year tax losses not recognised	6,052,162	1,187,153
Income tax expense	**-**	**-**
The applicable weighted average effective tax rates are as follows:	0%	0%
b. Net deferred tax assets not brought to account:		
Unused tax losses for which no deferred tax asset has been recognised	20,250,543	15,366,669
Potential tax benefit @ 30%	6,075,163	4,610,001

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

a. Components of Key Management Personnel Compensation

	2013 $	2012 $
Short-term employee benefits	843,424	842,777
Post-employment benefits	22,541	22,024
Share based payments	-	11,028
	865,965	875,829

Detailed remuneration disclosures are provided in the Remuneration Report section of the Directors' Report.

b. Related Party Transactions – Key Management Personnel

Amounts totalling $21,002 (2012: $51,517) were paid to associates of Mr J Pettett for accounting and graphic design related services.

Management consulting fees totalling $119,665 (2012: $111,568) were paid to an entity of which Mr R Messer is a beneficial shareholder and director. No amounts (2012: $7,130) were paid to an associate of Mr Messer for administration related services.

Directorship fees totalling $143,474 (2012: $156,300) were paid to an entity of which Mr G Lloyd is a beneficiary.

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

c. Equity Instrument Disclosures

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

(i) Options

2013	Balance 1.1.2013	Granted	Exercised/ (Expired)	Balance 31.12.2013	Vested during the year	Vested and Exercisable 31.12.2013	Total Unexercisable 31.12.2013
Greg Short	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

2012	Balance 1.1.2012	Granted	Exercised/ (Expired)	Balance 31.12.2012	Vested during the year	Vested and Exercisable 31.12.2012	Total Unexercisable 31.12.2012
Greg Short	500,000	-	(500,000)	-	-	-	-
Total	500,000	-	(500,000)	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(ii) Performance Rights/Restricted Stock Units

2013	Balance 1.1.2013	Granted as Compensation	Vested	Balance 31.12.2013	Total Unvested 31.12.2013
Justin Pettett	436,893	-	436,893	-	-
Ryan Messer	436,893	-	436,893	-	-
Total	873,786	-	873,786	-	-

2012	Balance 1.1.2012	Granted as Compensation	Vested	Balance 31.12.2012	Total Unvested 31.12.2012
Justin Pettett	1,131,754	-	694,861	436,893	436,893
Ryan Messer	1,131,754	-	694,861	436,893	436,893
Total	2,263,508	-	1,389,722	873,786	873,786

d. Shareholdings

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

2013	Balance 1.1.2013	Rights/ Restricted Stock Units Issued	Net Change Other *	Balance 31.12.2013
Justin Pettett	6,311,111	436,893	(2,121,429)	4,626,575
Ryan Messer	4,032,620	436,893	-	4,469,513
George Lloyd	4,417,144	-	-	4,417,144
Greg Short	860,000	-	-	860,000
Total	15,620,875	873,786	(2,121,429)	14,373,232

2012	Balance 1.1.2012	Rights/ Restricted Stock Units Issued	Net Change Other *	Balance 31.12.2012
Justin Pettett	5,437,679	694,861	178,571	6,311,111
Ryan Messer	3,337,759	694,861	-	4,032,620
George Lloyd	4,417,144	-	-	4,417,144
Greg Short	210,000	-	650,000	860,000
Total	13,402,582	1,389,722	828,571	15,620,875

* Net Change Other refers to shares purchased or sold during the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 6 AUDITORS' REMUNERATION

	Consolidated Group	
	2013 $	2012 $
Remuneration of the auditor of the Group for:		
PricewaterhouseCoopers		
- auditing or reviewing the financial report	91,900	86,440
- taxation services	17,150	12,940
	109,050	99,380

NOTE 7 EARNINGS PER SHARE

	Consolidated Group	
	2013 $	2012 $
a. Reconciliation of earnings to profit or loss		
Loss for the year	(20,034,093)	(3,836,383)
Earnings used to calculate basic EPS	(20,034,093)	(3,836,383)
	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	287,871,722	259,987,401
Weighted average number of options outstanding	8,712,596	313,562
Weighted average number of rights outstanding	-	965,502
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	296,584,318	261,266,465

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 8 CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2013	2012
	$	$
Cash at bank and in hand	551,657	758,146
Short-term bank deposits	1,004,948	1,316,307
	1,556,605	2,074,453

The effective interest rate on short-term bank deposits was 2.85% (2012: 4.27%).

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:

	2013	2012
Cash and cash equivalents	1,556,605	2,074,453
	1,556,605	2,074,453

NOTE 9 TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2013	2012
	$	$
CURRENT		
Trade receivables	219,118	216,845
	219,118	216,845
Other receivables:		
- GST receivable	7,962	14,910
- Operating bond	140,877	120,528
	367,957	352,283

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

	2013	2012
	$	$
Opening Balance	-	104,937
- additional provision	-	-
- reversal of prior year provision	-	(104,937)
Closing Balance	-	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 10 CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest (%)*	
		2013	2012
Subsidiaries of Pryme Energy Limited:			
Pryme Oil and Gas Inc	US	100%	100%
- Pryme Energy LLC	US	100%	100%
- Trident Minerals LLC	US	100%	100%
- Pryme Royalty Holdings LLC	US	100%	100%
- Pryme Mineral Holdings LLC	US	100%	100%
- Pryme Oil and Gas LLC	US	100%	100%
- TOC LLC**	US	100%	N/A

** Percentage of voting power is in proportion to ownership*
*** Incorporated 19 November 2013*

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2013 $	2012 $
PLANT AND EQUIPMENT		
Office Equipment:		
At cost	60,708	55,964
Accumulated depreciation	(50,929)	(38,036)
	9,779	17,928
Other Equipment:		
At cost	45,863	39,238
Accumulated depreciation	(29,014)	(16,975)
	16,849	22,263
TOTAL		
At cost	106,571	95,202
Accumulated depreciation	(79,943)	(55,011)
	26,628	40,191

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

a. Movements in Carrying Amounts

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

	Office Equipment $	Drilling Equipment $	Other Equipment $	Total $
Consolidated Group:				
Balance at 1 January 2012	24,006	477,142	88,784	589,932
Foreign currency movement	(247)	(9,064)	(1,700)	(11,011)
Additions	6,394	54,099	-	60,493
Disposals	-	(522,177)	(54,894)	(577,071)
Depreciation expense	(12,225)	-	(9,927)	(22,152)
Balance at 31 December 2012	17,928	-	22,263	40,191
Foreign currency movement	1,230	-	2,275	3,505
Additions	2,013	-	-	2,013
Disposals	-	-	-	-
Depreciation expense	(11,392)	-	(7,689)	(19,081)
Balance at 31 December 2013	9,779	-	16,849	26,628

NOTE 12 INTERESTS IN JOINT ARRANGEMENTS

Set out below are the jointly controlled arrangements of the group as at 31 December 2013. The principal place of business and the Group's proportionate working interest in the assets, liabilities, revenues and expenses of the Group's joint operations held under the applicable joint operating agreements are recognised within each applicable line item of the financial statements. The percentage working interest in particular wells varies across projects as indicated.

Name of Project	Place of Business	Working Interest (%)	
		2013	2012
Four Rivers	US	8-25%	8-25%
Raven	US	35%	35%
Turner Bayou	US	40-62%	40%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 13 WORKING INTEREST

	Consolidated Group	
	2013 $	2012 $
Exploration Expenditure Capitalised:		
- Exploration and evaluation phases	8,549,741	7,033,221
- Less impairment write off	(4,888,609)	-
Production phase:	33,707,852	26,904,048
- Less accumulated depletion	(12,251,091)	(9,024,850)
- Less impairment write off	(12,126,424)	-
Total Working Interest	12,991,469	24,912,419

In 2012, Pryme Oil and Gas LLC, Pryme's Energy Limited's wholly-owned subsidiary which holds Pryme's interest in the Turner Bayou project, executed a Term Loan Facility (Term Facility) with Macquarie Bank Limited (Macquarie Bank) to fund its share of exploration and development costs for the Turner Bayou project in Louisiana, USA. The Term Facility is secured against the assets of Pryme Oil and Gas LLC and is non-recourse to the parent company, Pryme Energy Limited, and all other projects and subsidiaries of Pryme.

During the year Pryme Oil and Gas LLC negotiated an extension of the Term Facility to 28 February 2014 following problems encountered in drilling the Rosewood Plantation 21H well. A further renegotiation is expected to be agreed whilst the parties continue activities with respect to a farmout of an interest in the project to third parties. The impairment in June 2013 resulted in the Turner Bayou project being written down to $9.3m which equates to the amount owing under the Term Facility of $7.6m (see Note 15) plus accrued project costs of $1.7m. Whilst it is the intention of Pryme Oil and Gas LLC to further renegotiate the Term Facility and resolve the funding shortfall in a manner that preserves the value in the Turner Bayou project, the decision by the Company to write down the value of the project is a conservative view in recognition that Pryme's interest in the Turner Bayou project may at some time be relinquished in settlement of the loan and accrued costs.

NOTE 14 TRADE AND OTHER PAYABLES

	Consolidated Group	
	2013 $	2012 $
Other payables and accrued expenses	2,374,202	469,464

NOTE 15 BORROWINGS – CURRENT

		Consolidated Group	
		2013 $	2012 $
Non-Recourse Debt Facility	(a)	7,553,988	5,097,691
Total Borrowings – Current		7,553,988	5,097,691

(a) In 2012, Pryme Oil and Gas LLC, Pryme's Energy Limited's wholly-owned subsidiary which holds Pryme's interest in the Turner Bayou project, executed a Term Loan Facility (Term Facility) with Macquarie Bank Limited (Macquarie Bank) to fund its share of exploration and development costs for the Turner Bayou project in Louisiana, USA. The Facility is secured against the assets of Pryme Oil and Gas LLC (see Note 13) and is non-recourse to the parent company, Pryme Energy Limited, and all other projects and subsidiaries of Pryme.

(b) In 2011, the Company completed a funding agreement with its major shareholder, Belmont Park Investments Pty Ltd (BPI), to raise $4.0 million through an unsecured convertible note facility. The terms of the facility provided for repayment on the date falling 12 months after initial drawdown with interest payable at a rate of 9.381% per annum and a facility fee equal to 2.5% of the principal. On 10 April 2012, the Company repaid the borrowings in full including applicable interest and fees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 16 ISSUED CAPITAL

	Consolidated Group	
	2013 $	2012 $
289,708,568 (2012: 276,402,778) fully paid ordinary shares	48,620,212	47,600,161
Capital raising costs	(2,480,118)	(2,440,129)
	46,140,094	45,160,032

a. Ordinary shares	**No. of Shares**	**No. of Shares**
At the beginning of reporting period	276,402,778	257,841,350
Shares issued during the year		
- 3 January 2012	-	1,518,928
- 17 December 2012	-	17,042,500
- 7 January 2013	965,502	-
- 22 February 2013	12,340,288	-
At reporting date	289,708,568	276,402,778

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

On 1 January 2013 965,502 performance rights and restricted stock units shown above vested and converted to ordinary shares on a one-for-one basis on 7 January 2013. On 22 February 2013 the Company completed a placement of 12,340,288 new shares at a price of $0.08 per share.

On 1 January 2012 1,518,928 performance rights and restricted stock units shown above vested and converted to ordinary shares on a one-for-one basis on 3 January 2012. On 17 December 2012 the Company announced a placement of 16,350,000 new shares at a price of $0.08 per share and 8,175,000 options on the basis of one free option for every two new shares. On 2 January 2013, the Company also issued 692,500 shares and 1,346,250 options on the basis of one free option for every two new shares in lieu of any brokerage fees paid in cash in relation to the placement announced on 17 December 2012. The options expired (see Note 16(b)) on 30 November 2013.

Capital risk management

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

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

b. Options	**Consolidated Group**	
	Number of Options 2013	**Number of Options 2012**
15 cent options		
At the beginning of the period	9,521,250	500,000
- Less 15 cent options expired 20 January 2012	-	(500,000)
- Add 15 cent options issued 17 December 2012	-	9,521,250
- Less 15 cent options expired 30 November 2013	(9,521,250)	-
Total 15 cent options	-	9,521,250

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 17 RESERVES

a. Foreign Currency Translation Reserve

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

b. Option Reserve

The option reserve records items recognised as expenses on valuation of directors share rights/options under the Pryme Long Term Incentive Plan and options issued which have not been exercised

	Consolidated Group	
	2013 $	2012 $
Foreign Currency Translation Reserve	(3,622,987)	(5,871,470)
Option Reserve	-	48,424
	(3,622,987)	(5,823,046)

NOTE 18 CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	2013 $	2012 $
a. Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable – minimum lease payments		
- not later than 12 months	16,731	17,541
- between 12 months and 5 years	6,192	21,164
- Greater than 5 years	-	-
	22,923	38,705
b. Capital Expenditure Commitments contracted for		
Expenditure on working interest	-	505,955
	-	505,955
Payable:		
- not later than 12 months	-	505,955
- between 12 months and 5 years	-	-
- greater than 5 years	-	-
	-	505,955

NOTE 19 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2013 (2012: Nil)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 20 SEGMENT REPORTING

Operating Segments — Geographical Segments

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

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

	Australia	United States of America	Eliminations	Total
2013	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue	-	2,539,121	-	2,539,121
Intercompany Management Fee	1,293,026	-	(1,293,026)	-
Other	39,645	24,106	-	63,751
Expenditure				
Production Expenses	-	(1,049,399)	-	(1,049,399)
Depletion, depreciation and exploration expenditure written off	(5,349)	(18,801,713)	-	(18,807,062)
Employee Related Expenses	(689,964)	(165,302)	-	(855,266)
Intercompany Management Fee	-	(1,293,026)	1,293,026	-
Intercompany Loan Provision	(30,825,100)	-	30,825,100	-
Other	(585,770)	5,483,012	(6,822,480)	(1,925,238)
Segment result	**(30,773,512)**	**(13,263,201)**	**24,002,620**	**(20,034,093)**
Assets	14,720,112	13,944,810	(13,689,031)	14,975,891
Liabilities	201,255	54,390,727	(44,514,019)	10,077,963

	Australia	United States of America	Eliminations	Total
2012	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue	-	2,706,263	-	2,706,263
Intercompany Management Fee	1,709,321	-	(1,709,321)	-
Other	48,751	4,942	-	53,693
Expenditure				
Production Expenses	-	(956,303)	-	(956,303)
Depletion, depreciation and exploration expenditure written off	(6,089)	(3,451,025)	-	(3,457,114)
Employee Related Expenses	(794,814)	(206,792)	-	(1,001,606)
Intercompany Management Fee	-	(1,709,321)	1,709,321	-
Other	(722,771)	(458,545)	-	(1,181,316)
Segment result	**234,398**	**(4,070,781)**	**-**	**(3,836,383)**
Assets	44,575,013	26,075,135	(43,221,105)	27,429,043
Liabilities	214,281	48,683,871	(43,221,009)	5,677,143

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 21 CASH FLOW INFORMATION

	Consolidated Group	
	2013	2012
	$	$
a. Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax		
Loss after income tax	(20,034,093)	(3,836,383)
Non-cash flows in profit		
Depreciation, depletion and amortisation	2,960,788	2,759,707
Share options expensed	-	12,036
Write-off of capitalised expenditure	-	697,408
(Gain)/Loss on sale of assets	37,916	(203,366)
Impairment Intercompany Loan	15,998,133	-
Interest accrued	242,921	-
Changes in assets and liabilities		
(Increase)/decrease in trade and term receivables	70,636	223,271
(Increase)/decrease in prepayments	38,249	29,486
Increase/(decrease) in trade payables and accruals	161,917	(289,735)
Cashflow from (used in) operations	(523,533)	(607,576)

b. Credit Standby Arrangements with Banks

Other than the loan arrangements referred to in Note 15, there are no credit or standby arrangements with financiers as at 31 December 2013 (2012: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 22 EVENTS AFTER BALANCE SHEET DATE

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

As announced to the ASX on 11 February 2014, the Company has secured the right to earn an interest in 9,333 mineral acres located in an active region of the Cline Shale resource play in the Eastern Shelf of the Permian Basin, Texas USA. The key terms of the Farm in Agreement are as follows:

- Payment of US$100,000 cash plus agreement to issue 6 million Pryme shares to secure the project
- Pryme will drill 9 vertical wells and 1 horizontal well into the primary targets and make cash payments to the vendors, as detailed below, to earn a total working interest of 75% (56.25% NRI) in the project's 9,333 acres to all depths from the surface to the top of the Cline Shale (7,000 net acres to Pryme) and a 50% WI (37.5% NRI) in all depths below the top of the Cline Shale (4,666 net acres to Pryme)
- Pryme will earn its interest in the project proportionately through the drilling of the 10 wells at the rate of a 7.5% WI from the surface to the top of the Cline Shale and a 5.0% WI below the top of the Cline Shale for each well drilled.
- The commitment to drill wells and make cash payments over the next 2 years is at the sole discretion and option of Pryme thereby aligning payments to the vendor and commitments to drill wells to the success of the project.

As announced to the ASX on 14 March 2014, the Company intends to raise additional capital by undertaking a 1 for 1 non-renounceable rights issue at $0.02 per share to raise up to $5.9 million.

NOTE 23 RELATED PARTY TRANSACTIONS

	Note	Consolidated Group 2013 $	2012 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.			
Transactions with related parties:			
Key Management Personnel	5(b)	284,141	326,515

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 24 FINANCIAL RISK MANAGEMENT

a. Financial Risk Management Policies

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

i. Treasury Risk Management

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

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

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

ii. Financial Risk Exposures and Management

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

Interest Rate Risk

The Company is exposed to interest rate risk as the interest rate on the debt owing is set based on LIBOR + 6.00%. This rate was negotiated during the current financial year and is monitored against prevailing market interest rates.

Foreign Currency Risk

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

Liquidity Risk

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

Credit Risk

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

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

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

- only utilising banks and financial institutions with an 'A' rating;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and

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

Price Risk

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

b. Financial Instruments composition and maturity analysis

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

2013	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Less than 1 year	Fixed Interest Rate 1 to 5 years	Non Interest Bearing	Total
		$	$	$	$	$
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	2.85%	1,556,605	-	-	-	1,556,605
Receivables	-	-	-	-	367,957	367,957
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(2,374,202)	(2,374,202)
Borrowings	6.27%	(7,553,988)	-	-	-	(7,553,988)
Total		(5,997,383)	-	-	(2,006,245)	(8,003,628)

2012	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Less than 1 year	Fixed Interest Rate 1 to 5 years	Non Interest Bearing	Total
		$	$	$	$	$
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	4.27%	2,074,453	-	-	-	2,074,453
Receivables	-	-	-	-	487,223	487,223
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(469,464)	(469,464)
Borrowings	6.12%	(5,232,631)	-	-	-	(5,232,631)
Total		(3,158,178)	-	-	17,759	(3,140,419)

c. Net Fair Values

The net fair values of:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 25 PARENT INFORMATION

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

STATEMENT OF COMPREHENSIVE INCOME	Parent Entity	
	2013 $	2012 $
Total (Loss) / Profit	(30,773,512)	234,398
Total Comprehensive Income	(30,773,512)	234,398

STATEMENT OF FINANCIAL POSITION	2013 $	2012 $
ASSETS		
Current Assets	1,024,601	1,342,078
Non Current Assets	13,695,511	43,232,935
TOTAL ASSETS	14,720,112	44,575,013
LIABILITIES		
Current Liabilities	201,255	214,281
TOTAL LIABILITIES	201,255	214,281
EQUITY		
Issued capital	46,140,094	45,160,032
Reserves	-	48,424
Accumulated losses	(31,621,236)	(847,724)
TOTAL EQUITY	14,518,858	44,360,732

The total loss of $30,773,512 includes a provision of $30,825,100 against the intercompany loan with the parents' 100% owned US subsidiary. The intercompany loan is eliminated on consolidation and therefore has no effect on the financial statements of the group.

NOTE 26 COMPANY DETAILS

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

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

The principal place of business of the US subsidiaries is:

Pryme Oil and Gas Inc
3500 Washington Ave, Suite 200
Houston, Texas 77007
United States of America

Directors' Declaration

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

   (a) the Financial Statements and Notes as set out on pages 30 to 58 are in accordance with the Corporations Act 2001, including:

      i. complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements; and

      ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance as represented by the results of its operations and its cash flows for the year ended on that date; and

   (b) the remuneration disclosures that are included on pages 23 to 27 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 2013.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director

Brisbane, Queensland.
14 March 2014

Independent Auditor's Report

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

Report on the financial report

We have audited the accompanying financial report of Pryme Energy Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Pryme Energy Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

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

Independent Auditor's Report

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

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

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

Material Uncertainty regarding Continuation as Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity has experienced operating losses and negative cash flows in the current period and will seek to obtain new funding to finance future operations. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 21 to 26 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Pryme Energy Limited for the year ended 31 December 2013 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Pryme Energy Limited (the company) for the year ended 31 December 2013 included on Pryme Energy Limited's web site. The company's directors are responsible for the integrity of Pryme Energy Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration

Independent Auditor's Report

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report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Thomason

Partner

Brisbane

14 March 2014

Shareholder Information

AS AT 21 FEBRUARY 2014

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

1. Substantial shareholders

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

Fully paid Ordinary Shares

Name	Number	%
Panorama Ridge Pty Ltd	40,437,492	13.95
Belmont Park Investments Pty Ltd	38,817,320	13.40

2. Number of security holders and securities on issue

Pryme has issued the following securities:
289,708,568 fully paid ordinary shares held by 1,400 shareholders.

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.

4. Distribution of security holders

Quoted securities

Category	Fully paid Ordinary shares		
	Holders	Shares	%
1 - 1,000	69	31,920	0.01
1,001 - 5,000	222	683,348	0.24
5,001 - 10,000	229	1,960,402	0.68
10,001 - 100,000	587	22,218,365	7.66
100,001 and over	293	264,814,533	91.44
Total		**289,708,568**	**100.00**

5. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 660. 17,858 shares comprise a marketable parcel at the Pryme closing share price of $0.028.

6. On market buy-back

There is no current on market buy-back.

Shareholder Information

7. Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

	Name	No. of shares	%
1	Panorama Ridge Pty Ltd	39,644,920	13.68
2	Belmont Park Investments Pty Ltd	38,244,308	13.20
3	Anthony Rispoli	12,340,394	4.26
4	Peter Daniel Adams	6,907,700	2.38
5	John Charles Vassallo + Janelle Kerrie Vassallo (Vassallo Family Superfund A/C)	6,787,748	2.34
6	Forstu Pty Ltd (Barlow Superfund A/C)	4,700,000	1.62
7	Justin Pettett	4,626,575	1.59
8	Anglo Energy Company Inc	4,565,163	1.58
9	Sourcerock Investments LLC	4,469,513	1.54
10	Jojeto Pty Ltd (Lloyd Super Fund A/C)	4,188,572	1.45
11	Maurice Killen Hickson + Suzanne Margaret Hickson (Hickson Fam Super Fund A/C)	3,125,000	1.08
12	Blamnco Trading Pty Limited	3,000,00	1.04
13	Chembank Pty Limited (RT Unit A/C)	3,000,00	1.04
14	National Nominees Ltd	2,974,200	1.03
15	Citicorp Nominees Pty Ltd	2,851,445	0.98
16	Bond Street Custodians Pty Limited	2,788,500	0.96
17	Rentside Pty Limited	2,634,286	0.91
18	Finance Associates Pty Ltd	2,500,000	0.86
19	Ian Williams	2,500,000	0.86
20	Craig MacBride	2,079,067	0.72
		152,500,816	**52.64**

Corporate Directory

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

Chief Financial Officer
Sandra Gaffney

Company Secretary
Ms Swapna Keskar

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123 Eagle Street
BRISBANE Qld 4000

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Stock Exchanges
Australian Securities Exchange Limited (ASX)
Code: PYM

International OTCQX
Code: POGLY

Australian Company Number
117 387 354

Australian Business Number
75 117 387 354

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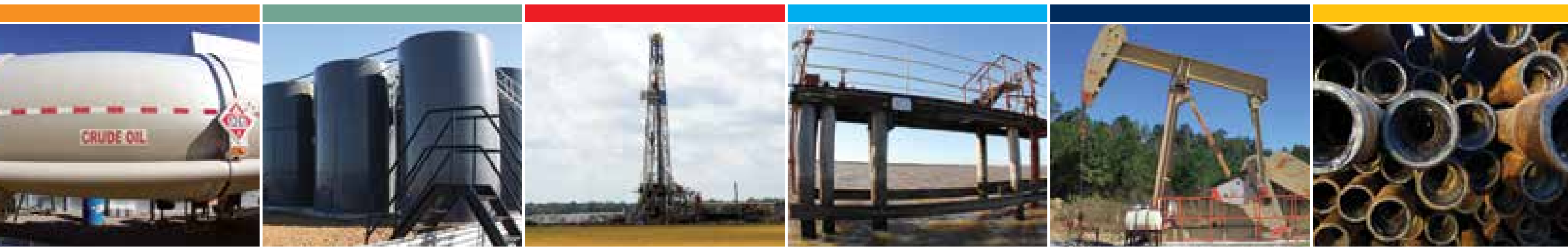

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