pryme energy

Half Yearly Report
June 2011

Drilling of the Deshotels 13H No.1 well and installation of the production liner and Packers Plus casing is an important mechanical milestone for the well and the Turner Bayou Chalk project. We would like to acknowledge the efforts of the engineering team and Nelson Energy, our operator, for a job well done. The drilling of the well has been a smooth operation; it has been completed on budget and to plan.

Justin Pettett
Managing Director

Drilling of the Deshotels 13H No.1 well in the Turner Bayou Chalk project

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Glossary

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

Directors' Report

In accordance with a resolution of the directors, the directors present their Report together with the Financial Report of Pryme Energy Limited ("Pryme" or "the Company") and its wholly owned subsidiary Pryme Oil and Gas Inc and its subsidiaries (together referred to as the Consolidated Entity) for the half year ended 30 June 2011 (Period) and the Independent Auditor's Review Report thereon:

Directors

The Directors of Pryme at any time during or since the end of the half year ended 30 June 2011 are:

Executive Directors

Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Chief Operating Officer)

Non-Executive Directors

Mr George Lloyd (Chairman)
Mr Gregory Short

At the Annual General Meeting held on 18 April 2011, Mr Ryan Messer was re-elected to the Board in accordance with clause 13.2 of Pryme's Constitution.

Review of Operations

The principal activities of Pryme during the Period under review were evaluating, exploring developing and producing oil and gas prospects in the United States of America. There have been no changes in the nature of these activities during the Period. In the first half of 2011, $3,694,169 was invested in exploration, evaluation and development activities (2010: $1,675,104). This investment was principally in the first well in the Turner Bayou project.

Production

For the half year ended 30 June 2011, cumulative net production for the Company comprises 20,330 barrels of oil and 29,788Mcf of natural gas from the Turner Bayou, LaSalle Parish, Raven, Four Rivers and Catahoula Lake Projects (2010: 13,720 barrels of oil and 44,997Mcf of natural gas respectively).

Financial Results

The functional currency for the US operations of the Group is US Dollars. The presentation currency for the Group's accounts is Australian Dollars. All figures quoted in this report are Australian Dollars unless otherwise specified.

Revenue of the Consolidated Entity (net of royalties) from production of oil and gas for the half year ended 30 June 2011 was $2,264,865 (2010: $1,438,845). This increase in revenue is attributable to a significant increase in production from the first well drilled in the Turner Bayou project and also due to an increase in oil prices. The average oil price received for the 6 months to June 2011 was US$102 per Bbl (2010: US$78.02 per Bbl) with total revenue from oil sales attributable to the following producing assets: Turner Bayou 43%, Lasalle 24%, Raven 3%, Four Rivers 17%, Catahoula Lake 13%. The average gas price received for the 6 months to June 2011 was US$3.88 per Mcf (2010:US$4.29 per Mcf) with total gas production from Raven for the period totalling 29,788 Mcf.

For the half year ended 30 June 2011 the Company has recorded a loss from operations of $726,814 (2010: $576,955). Total Comprehensive Income for the Company for the period was a loss of $1,654,972 (2010: $258,259) including a loss of $928,158 (2010: Gain $835,214) arising on translation of foreign operations which is required to be reported in the Consolidated Statement of Comprehensive Income rather than directly transferred to the foreign currency translation reserve in the balance sheet pursuant to changes in reporting standards. For the half year ended 30 June 2011 the Company has recorded positive cash flows from operations of $443,079 (2010: ($269,629)). This improvement in cash flows from operations reflects the increased production and resulting sales receipts attributable to the first well drilled in the Turner Bayou project.

Exploration Activities

Details of Pryme's exploration activities are specified in the "Projects" section of the half year report.

Events Subsequent to Reporting Date

As announced to the ASX on 15 June 2011, Pryme offered to issue 32,230,168 fully paid ordinary shares at an issue price of $0.125 per share under a non-renounceable rights issue on the basis of one share for every seven existing fully paid shares held at the record date of 23 June 2011. As advised to the ASX on 18 July 2011, the rights issue closed on 13 July 2011 with applications for 7,880,720 shares received for total subscribed funds of $985,090. The shares were allotted and issued on 21 July 2011. The rights issue was undersubscribed to the amount of 24,349,448 ordinary shares ("shortfall shares").

Directors' Report (cont.)

As announced on 11 August 2011, 22,149,448 shortfall shares were allotted and issued with the remaining 2,200,000 shares alloted and issued on 24 August 2011. Total subscribed funds recieved in relation to the issue of shortfall shares is 3,043,681. The placement of the shortfall shares takes Pryme's issued capital to 257,841,350 fully paid ordinary shares.

Lead Auditor's Independence Declaration

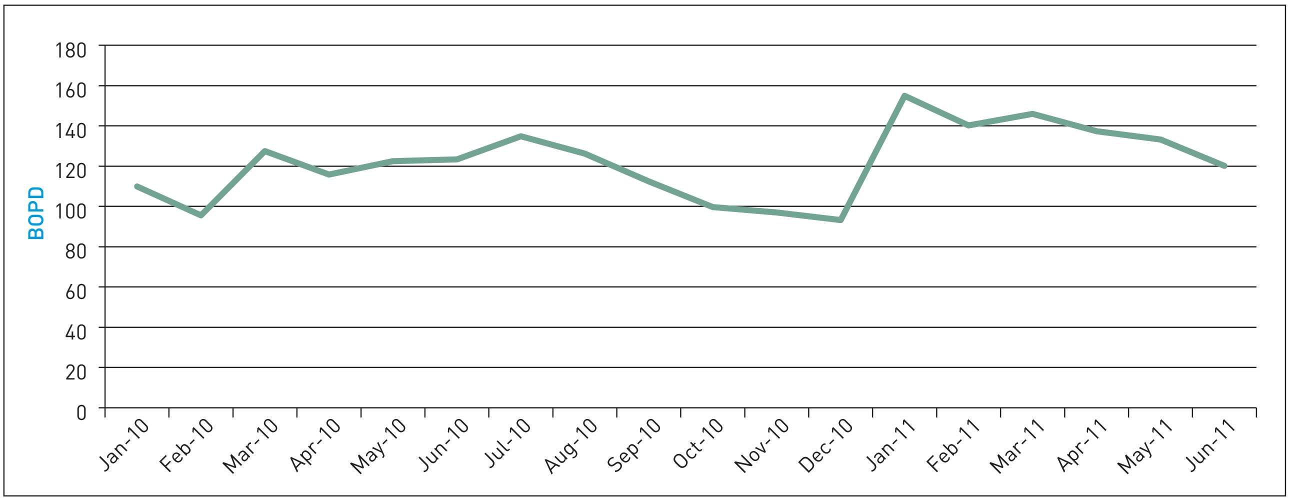
The lead auditor's independence declaration has been provided by Pryme's auditor, PricewaterhouseCoopers. A copy of this declaration is attached to, and forms part of, the Half Year Report for the six months ended 30 June 2011.

Signed in accordance with a resolution of the Board of Directors.

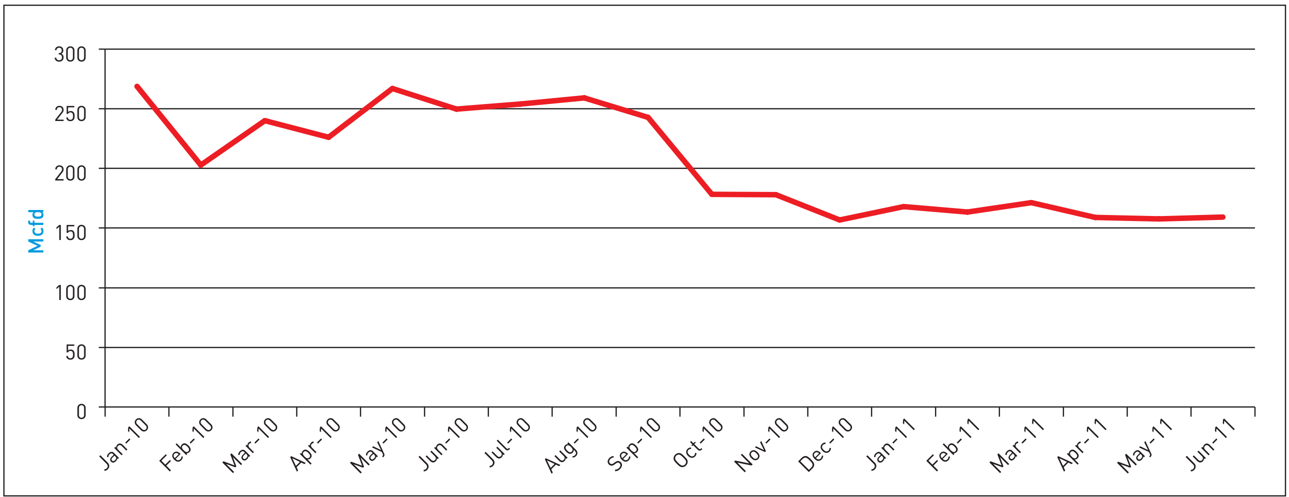
Justin Pettett
Managing Director
Brisbane
24 August 2011

Projects

Average Daily Net Production (Oil)



Average Daily Net Production (Gas)



Half Year Sales Report (net to Pryme)

Project	H1 2010		H2 2010		H1 2011	
	Natural Gas (Mcf)	Oil (Bbls)	Natural Gas (Mcf)	Oil (Bbls)	Natural Gas (Mcf)	Oil (Bbls)
La Salle Parish		4,741		4,920		4,628
Four Rivers		6,269		4,403		3,312
Raven	44,233	962	38,574	687	29,749	623
Catahoula Lake		1,770		3,480		2,653
Turner Bayou			Flaring	244	Flaring	9,114
Total	44,233	13,742	38,574	13,734		20,330
Total BOE*		**20,993**		**20,058**		**25,207**

**Oil equivalent of natural gas – 6.1Mcf of natural gas equivalent to 1 barrel of oil*

Projects (cont.)

LaSalle Parish Project (8%-21.5% Interest)

The LaSalle Parish project is based on oil production from five fields, the first of which was discovered in 2000.

First half oil sales of 4,628 barrels were 6% lower than for the previous half year. The decline is mainly attributable to normal decline. Average sales net to Pryme were 25 Bbls/day of oil for the half year.

Raven Project (35% Interest / 25.38% NRI)

Sales from the Raven project for the half year were 29,749 Mcf of natural gas and 623 barrels of condensate, a 22% reduction in gas sales and a 9% reduction in condensate sales over the previous half year. Gas sales for the half year were lower mainly due to natural decline. Oil sales for the half year were lower due to both natural decline. Average sales net to Pryme were 164 Mcfd of natural gas and 3 Bbls/day of condensate for the half year.

Catahoula Lake Project (25%-50% Interest/20.25%-37.5% NRI)

The Catahoula Lake project is located in LaSalle, Rapides and Grant parishes, Louisiana and is targeting multiple "stacked" oil zones throughout the Middle-Wilcox formation at depths ranging from 4,500 to 5,500 feet. Ultimate oil recoveries are expected to range from 50,000 to 200,000 barrels for each successful well drilled from land locations and in excess of 250,000 barrels for each successful well drilled from lake locations.

Sales for the half year were 2,653 barrels of oil net to Pryme, a 23% decrease over the previous half year due to timing of workovers on various wells. Average sales net to Pryme were 14 Bbls/day for the half year.

The C-11 well was worked over and brought back on line at the end of June. The C-10 well was also worked over during the quarter and recompleted in a shallower sand. Both wells will contribute to increased oil sales in the next half year.

The remainder of 2011 will be spent on detailed geological interpretation of the lake based on information from nearby onshore and offshore exploration which has been carried out over the past 60 years. The 2011 plan also includes drilling at least one new well in an onshore location on the edge of the lake. When the lake becomes available for barge rig exploration in early 2012 we expect to have a comprehensive exploration program prepared.

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

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

Sales for the half year from the Four Rivers project were 3,312 barrels of oil net to Pryme, a 24% decrease over sales for the previous half year. Average sales net to Pryme were 18 Bbls/day for the half year. The decrease in oil sales as compared to the previous half year was mainly due to several wells which needed to be worked over, which have been subsequently completed. The Jack Allen well was in non-producing status for most of the first half of the year due to unitization work that needed to be completed before the well is re-completed in a shallower sand; this work is planned for third quarter 2011.

Turner Bayou 3D Seismic Project

In the half year to 30 June 2011, the first well to be drilled in the Turner Bayou Chalk project, Deshotels 20H No.1, produced 9,114 barrels of oil. Currently the well is producing below expectations at 120 BBls/day and approximately 90 Mcfd of natural gas and Pryme and its partners plan to remediate and finish completing the well as originally planned.

Deshotels 20H No.1 Production Well Head

Projects (cont.)

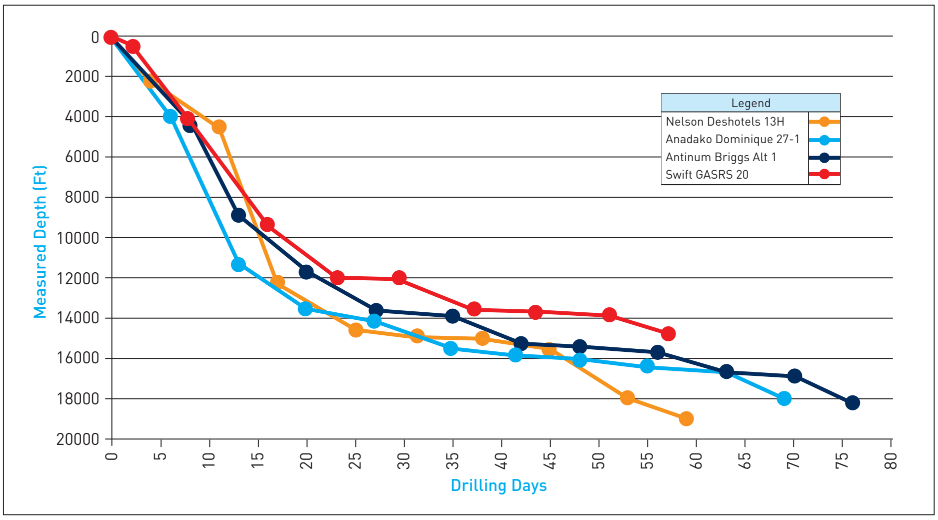
Drilling of the second Turner Bayou Chalk well, the Deshotels 13H No.1, was completed after 30 June 2011 to a total measured depth of 19,029 feet (5,800 metres) including the horizontal leg which is approximately 4,000 feet (1,220 metres) long. The horizontal leg was logged to identify the extent and location of fractures and enable accurate design of the Packers Plus production liner.

The Packers Plus production liner was installed in the horizontal leg of the well and the five and half inch diameter production casing tied back to the surface. The production liner packers were set in accordance with the proposed acid stimulation and production plans for the well. The drill rig has been released and demobilisation has commenced.

The flow line connecting the Deshotels 13H No.1 well to the Deshotels 20H No.1 production facilities will be complete by the end of August and production flow testing will commence in early September.

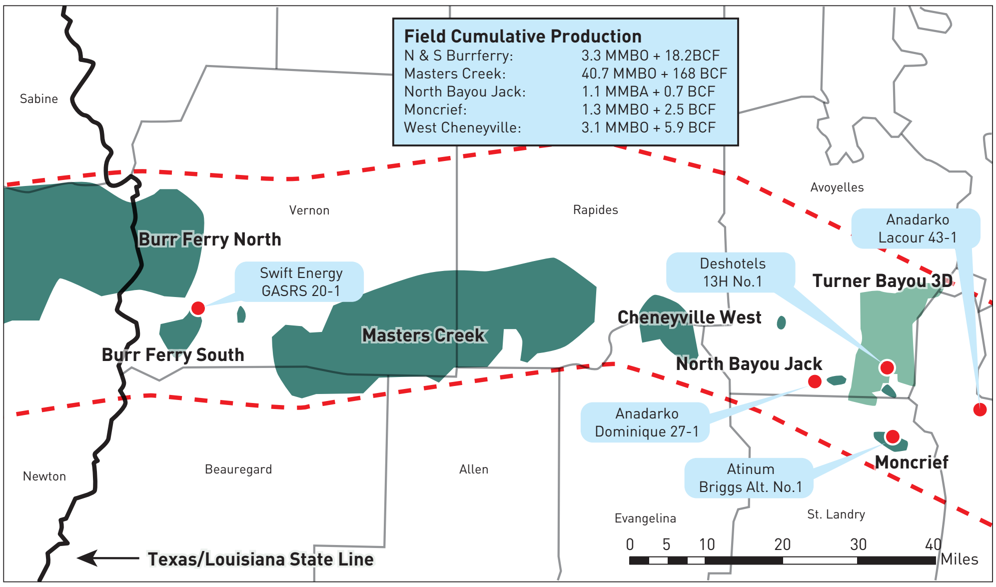
Exploration and leasing activities in the vicinity of Turner Bayou are increasing. Anadarko Petroleum, one of the world's largest independent oil and gas exploration and production companies, commenced drilling its first Austin Chalk well on trend and near Turner Bayou in June. Anadarko has also permitted several additional wells on trend with Turner Bayou which indicates its strong interest in the area.

Austin Chalk Wells



On trend drilling progress per operator around Turner Bayou

Austin Chalk Regional Trend Map and Project Location



On trend drilling activity around Turner Bayou

Auditor's Independence Declaration

Under Section 307C of the Corporations Act 2001
To the Directors of Pryme Energy Limited

pwc

Auditor's Independence Declaration

As lead auditor for the review of Pryme Energy Limited for the half year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane
24 August 2011

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Financials

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2011

	Note	Consolidated Entity 30 June 2011 $	Consolidated Entity 30 June 2010 $
Revenue	2	2,396,235	1,870,815
Audit and Accounting fees		(74,018)	(72,450)
Depletion, depreciation and exploration write off expense		(866,965)	(528,841)
Directors remuneration	3	(271,288)	(188,584)
Directors remuneration – Share/Option Plan	3	(40,865)	(31,181)
Professional Consulting Fees	3	(141,827)	(207,685)
Employee benefits expenses		(245,016)	(336,489)
Legal and secretarial fees		(133,227)	(44,136)
Production Costs		(674,428)	(332,640)
Provision for doubtful debts		-	(382,647)
Share registry and listing fees		(35,225)	(23,440)
Travel expenses		(139,111)	(119,584)
Finance Costs		(157,917)	-
Administration expenses		(241,416)	(179,360)
Share of net loss of associate		(101,746)	(733)
Loss before income tax		**(726,814)**	**(576,955)**
Income tax expense		-	-
Loss for the period		**(726,814)**	**(576,955)**
Other Comprehensive Income			
Net gain /(loss) foreign currency translation reserve		(928,158)	835,214
Income tax related to components of other comprehensive income		-	-
Total Comprehensive Income/(Loss)		**(1,654,972)**	**258,259**
Profit/(Loss) attributable to members of the parent entity		**(726,814)**	**(576,955)**
Total Comprehensive Income/(Loss) attributable to members of the parent entity		**(1,654,972)**	**258,259**
Basic earnings per share from continuing operations – cents per share		(0.32) cents	(0.32) cents
Diluted earnings per share from continuing operations – cents per share		(0.32) cents	(0.32) cents

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	Consolidated Entity 30 June 2011 $	30 June 2010 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		3,242,565	2,562,063
Trade and other receivables	6	710,158	617,347
Other current assets		349,164	73,578
TOTAL CURRENT ASSETS		**4,301,887**	**3,252,988**
NON-CURRENT ASSETS			
Investment accounted for using the equity method	7	4,766,643	5,075,331
Property, plant and equipment		694,027	746,926
Working Interest	8	16,654,185	15,023,954
TOTAL NON-CURRENT ASSETS		**22,114,855**	**20,846,211**
TOTAL ASSETS		**26,416,742**	**24,099,199**
CURRENT LIABILITIES			
Trade and other payables		406,432	630,318
Borrowings	9	4,156,543	-
TOTAL CURRENT LIABILITIES		**4,562,975**	**630,318**
NON-CURRENT LIABILITIES			
Provisions		107,093	94,655
TOTAL NON-CURRENT LIABILITIES		**107,093**	**94,655**
TOTAL LIABILITIES		**4,670,068**	**724,973**
NET ASSETS		**21,746,674**	**23,374,226**
EQUITY			
Issued capital	10	39,931,265	39,918,989
Reserves		(6,354,665)	(5,441,651)
Accumulated losses		(11,829,926)	(11,103,112)
TOTAL EQUITY		**21,746,674**	**23,374,226**

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2011

	Note	Issued Capital	Accumulated Loss	Foreign Currency Translation Reserve	Options Reserve	Total
		$	$	$	$	$
Balance at 1 January 2010		**36,399,647**	**(7,938,512)**	**(2,305,516)**	**22,539**	**26,178,158**
Loss for the half year		-	(576,955)	-	-	(576,955)
Other Comprehensive Income		-	835,214	-	-	835,214
Total Comprehensive Income for the half year		**-**	**258,259**	**-**	**-**	**258,259**
Long Term Incentive Plan Rights		-	-	-	35,703	35,703
Adjustments from translation of foreign controlled entities		-	(835,214)	835,214	-	-
Balance at 30 June 2010		**36,399,647**	**(8,515,467)**	**(1,470,302)**	**58,242**	**26,472,120**
Balance at 1 January 2011		**39,918,989**	**(11,103,112)**	**(5,521,083)**	**79,432**	**23,374,226**
Loss for the half year		-	(726,814)	-	-	(726,814)
Other Comprehensive Loss		-	(928,158)	-	-	(928,158)
Total Comprehensive Loss for the half year		**-**	**(1,654,972)**	**-**	**-**	**(1,654,972)**
Share issue costs		(20,376)	-	-	-	(20,376)
Long Term Incentive Plan Rights		32,652	-	-	15,144	47,796
Adjustments from translation of foreign controlled entities		-	928,158	(928,158)	-	-
Balance at 30 June 2011		**39,931,265**	**(11,829,926)**	**(6,449,241)**	**94,576**	**21,746,674**

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2011

	Consolidated Entity	
	30 June 2011	30 June 2010
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,867,923	1,332,564
Payments to suppliers and employees	(1,460,031)	(1,705,345)
Interest received	35,187	103,152
Net cash provided by (used in) operating activities	**443,079**	**(269,629)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equity accounted investment	-	(294,535)
Purchase of property, plant and equipment	(27,317)	(359,053)
Payment for working interest	(3,694,169)	(1,675,104)
Repayment of working interest loan	-	1,342,026
Net cash provided by (used in) investing activities	**(3,721,486)**	**(986,666)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of share issue costs	(20,376)	-
Proceeds from Issue of convertible notes	4,000,000	-
Net cash provided by financing activities	**3,979,624**	**-**
Net increase (decrease) in cash held	701,217	(1,256,295)
Cash at beginning of period	2,562,063	5,454,607
Effect of exchange rate movement	(20,715)	4,606
Cash at end of period	**3,242,565**	**4,202,918**

The accompanying notes form part of these financial statements

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION

The half year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

This interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2010 and any public announcements made by Pryme Energy Limited ("Pryme" of "the Company") and its controlled entities ("Consolidated Entity") during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those in the annual financial report for the year ended 31 December 2010.

As at 30 June 2011, the Consolidated Entity has negative net current assets of $261,088. This is the result of convertible notes issued in the period which are due to mature within 12 months of the reporting date and in line with the contract terms may be converted into equity at the discretion of the note holder. Consistent with other oil and gas exploration companies, Pryme raises capital to fund its exploration activities as required. On 15 June 2011 Pryme announced a non-renounceable rights issue and, following the placement of shortfall shares, additional equity was subscribed for a total of $4,028,771. Accordingly, the financial report has been prepared on a going concern basis in the belief that the Company will realise its assets and settle its liabilities in the normal course of business and for at least the amounts stated in the financial report.

Borrowings

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

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

New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below.

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

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

IFRS 10 Consolidated financial statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of interests in other entities and revised IAS 27 Separate financial statements and IAS 28 Investments in associates (effective 1 January 2013).

In May 2011, the IASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The AASB is expected to issue equivalent Australian standards shortly.

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 Consolidated and separate financial statements, and SIC-12 Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. While Pryme does not expect the new standard to have a significant

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2011

impact on the composition of its financial statements, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. IFRS 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. Pryme does not expect the new standard to have any impact on the composition of its financial statements as the current accounting approach is consistent with the proposed approach to accounting for joint arrangements.

IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard by Pryme will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to Pryme's investments.

IAS 27 is renamed Separate financial statements and is now a standard dealing solely with separate financial statements. Application of this standard by the consolidated entity and parent entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Company is still assessing the impact of these amendments.

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

IFRS 13 Fair value measurement (effective 1 January 2013).

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

Revised IAS 1 Presentation of Financial Statements (effective 1 July 2012).

In June 2011, the IASB made an amendment to IAS 1 Presentation of Financial Statements. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 January 2012.

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.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2011

	Consolidated Entity	
	30 June 2011	30 June 2010
	$	$
NOTE 2: REVENUE FROM ORDINARY ACTIVITIES		
The following revenue items are relevant in explaining the financial performance for the interim period:		
Oil and Gas revenue	2,264,865	1,438,845
Other income – interest	36,561	141,506
Other income – operator fees	94,809	290,464
	2,396,235	1,870,815

NOTE 3: DIRECTORS' REMUNERATION

Total Directors' remuneration of $434,036 (2010: $406,500) comprises:

- $271,288 (2010: $188,584) which was paid in cash or cash equivalents as salary to directors;
- $121,883 (2010: $186,735) which was paid in cash or cash equivalents for consulting services to entities of which Directors hold beneficial entitlements; and
- $40,865 (2010: $31,181) which is attributable to the expensing of Performance Rights and Restricted Stock Units granted pursuant to the Pryme Energy Long Term Incentive Plan. In accordance with Australian Accounting Standard AASB2 – Share-Based Payment (AASB2) the securities will be expensed over the performance period of the security, from the date of the grant and despite the fact that attaching transparent performance hurdles are yet to be achieved.

NOTE 4: DIVIDENDS

There were no ordinary dividends declared or paid during the period under review (2010: $Nil).

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2011

NOTE 5: 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.

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles 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.

	Australia	United States of America	Eliminations	Total
2011	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue	-	2,264,865	-	2,264,865
Intercompany Management Fee	784,798	-	(784,798)	-
Other	36,556	94,814	-	131,370
Expenditure				
Production Expenses	-	(674,428)	-	(674,428)
Depletion, depreciation and exploration expenditure written off	(2,678)	(966,033)	-	(968,711)
Employee Related Expenses	(210,814)	(75,067)	-	(285,881)
Intercompany Management Fee	-	(784,798)	784,798	-
Other	(738,972)	(455,057)	-	(1,194,029)
Segment result	**(131,110)**	**(595,704)**	**-**	**(726,814)**
Assets (30 June 2011)	43,331,551	23,546,724	(40,461,533)	26,416,742
Liabilities (30 June 2011)	(4,302,264)	(40,829,241)	40,461,437	(4,670,068)
2010				
Income				
Oil and Gas Revenue	-	1,438,845	-	1,438,845
Intercompany Management Fee	641,426	-	(641,426)	-
Other	103,152	328,818	-	431,970
Expenditure				
Production Expenses	-	(332,640)	-	(332,640)
Depletion, depreciation and exploration expenditure written off	(3,109)	(525,732)	-	(528,841)
Employee Related Expenses	(268,840)	(215,971)	-	(484,811)
Intercompany Management Fee	-	(641,426)	641,426	-
Other	(391,996)	(709,482)	-	(1,101,478)
Segment result	**80,634**	**(657,589)**	**-**	**(576,955)**
Assets (30 June 2010)	35,441,080	23,342,672	(31,945,889)	26,837,863
Liabilities (30 June 2010)	(64,863)	(32,246,652)	31,945,772	365,743

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2011

	Consolidated Entity	
	30 June 2011	31 December 2010
	$	$
NOTE 6: RECEIVABLES		
CURRENT		
Trade receivables	355,458	193,304
Operator Fees Receivable	316,811	396,997
Provision for Doubtful Debts	(129,082)	(134,569)
Other	166,971	161,615
	710,158	617,347

On May 21, 2010 TriDimension Energy, L.P. ('TriDimension") and Axis Onshore, L.P. ("Axis"), filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. TriDimension and Axis are affiliate companies associated with the Company's investment in the Catahoula Lake project owning 50% of the barge rig and certain leasehold assets through its jointly operated entity Pryme Lake Exploration ("PLX"). The Company incurred costs in relation to refurbishing the barge rig on behalf of Axis and PLX. During the period the assets formerly owned by Axis were transferred pursuant to the bankruptcy proceedings to Sanchez Resources LLC. An administrative claim is being pursued for amounts owed however, pending finalisation of all legal matters, a provision has been raised in relation to the full amount outstanding in this regard of $129,082.

	Consolidated Entity	
	30 June 2011	31 December 2010
	$	$
NOTE 7: INVESTMENTS ACCOUNTED USING EQUITY METHOD		
Opening balance at 1 January 2011 (2010: 1 Jan 2010)	5,075,331	8,623,033
Share of associated entities loss	(101,746)	(733)
Transfer to working interest	-	(2,501,767)
Foreign exchange fluctuations	(206,942)	(1,045,202)
Closing balance at 30 June 2011 (2010: 31 December 2010)	4,766,643	5,075,331
NOTE 8: WORKING INTEREST		
Exploration expenditure capitalised		
Exploration and evaluation phase	-	8,021,574
Less exploration costs written off	-	(695,512)
Production phase	21,036,273	11,351,635
Less accumulated depletion	(4,382,088)	(3,653,743)
Intangible exploration costs capitalised	-	227,842
Less intangible exploration costs written off	-	(227,842)
	16,654,185	15,023,954

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2011

	Consolidated Entity	
	30 June 2011	31 December 2010
	$	$
NOTE 9: BORROWINGS		
Convertible Notes	4,156,543	-
	4,156,543	-

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

NOTE 10: ISSUED CAPITAL

Fully paid ordinary shares	42,142,510	42,109,858
Capital raising cost	(2,211,245)	(2,190,869)
	39,931,265	39,918,989
Number of ordinary shares on issue at the end of the half year:	225,611,182	225,057,754

NOTE 11: CONTINGENT LIABILITIES & COMMITMENTS

There has been no change in contingent liabilities since the last annual reporting date 31 December 2010.

NOTE 12: EVENTS SUBSEQUENT TO REPORTING DATE

As announced to the ASX on 15 June 2011, Pryme offered to issue 32,230,168 fully paid ordinary shares at an issue price of $0.125 per share under a non-renounceable rights issue on the basis of one share for every seven existing fully paid shares held at the record date of 23 June 2011. As advised to the ASX on 18 July 2011, the rights issue closed on 13 July 2011 with applications for 7,880,720 shares received for total subscribed funds of $985,090. The shares were allotted and issued on 21 July 2011. The rights issue was undersubscribed to the amount of 24,349,448 ordinary shares ("shortfall shares"). As announced on 11 August 2011, 22,149,448 shortfall shares were allotted and issued with the remaining 2,200,000 shares alloted and issued on 24 August 2011. Total subscribed funds recieved in relation to the issue of shortfall shares is 3,043,681. The placement of the shortfall shares takes Pryme's issued capital to 257,841,350 fully paid ordinary shares.

Directors' Declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 10 to 19 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *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 30 June 2011 and of its performance for the half-year ended on that date, and

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

This declaration is made in accordance with a resolution of the directors.

Justin Pettett
Managing Director

Brisbane
24 August 2011

Auditor's Review Report

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pryme Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Pryme Energy Limited Group (the consolidated entity). The consolidated entity comprises both Pryme Energy Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pryme Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Auditor's Review Report (cont.)

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Independent auditor's review report to the members of Pryme Energy Limited (continued)

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Pryme Energy Limited for the half-year ended 30 June 2011 included on Pryme Energy Limited's web site. The company's directors are responsible for the integrity of the Pryme Energy Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pryme Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
24 August 2011

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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International OTCQX
Code: POGLY

Australian Company Number
117 387 354

Australian Business Number
75 117 387 354

Notes

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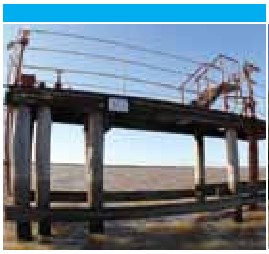

pryme energy

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