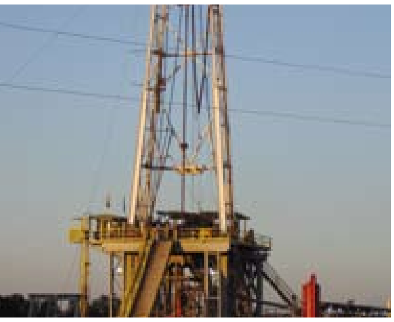
pryme
OIL AND GAS




2007 **ANNUAL REPORT**

Pryme's Mission

Pryme's mission is to seek out, evaluate and exploit new oil and natural gas business opportunities in the United States. The directors utilise their collective experience to identify new projects and ensure that they are properly evaluated and professionally managed to contribute to shareholder prosperity.

Broadly, the Pryme strategy is to:

- focus on oil and gas opportunities in Louisiana and the Gulf States, including Texas, whilst not excluding suitable projects in other areas in North America;
- apply a disciplined approach to project selection to manage the cost of capital;
- leverage the many years of management and adviser experience to ensure access to favourable projects;
- structure win-win partnerships between the Company, its co-venturers and its mineral rights owners to access the best opportunities; and
- leverage Pryme's specialised knowledge in target identification, drilling, well completion and operation to maintain a competitive advantage.

Why the USA?

Profitability

The United States consumes approximately one quarter of the world's oil and natural gas production. However, it holds approximately 2% and 3% respectively of the world's oil and natural gas reserves. Security of oil and gas supply in the United Sates is a major concern. Notwithstanding this, the regions in which Pryme operates have a long history of oil and gas production and continue to be prospective for further economic discoveries at scales which will create substantial value for Pryme's shareholders.

Important considerations for Pryme in project selection are proximity to markets, accessible delivery infrastructure and favourable operating characteristics to ensure high margins and provide some protection against adverse price movements.

By operating in the United States, Pryme is well-positioned to take advantage of the realities of today's high global energy demand and the resulting high oil and gas prices. In stark contrast to natural gas prices in Australia, natural gas contract prices in the US are currently in excess of US$9 per Mcf (A$10 per GJ).

Resources

Petroleum resources available for development in the United States and Canada fall into two general categories:

- high risk "exploratory" or "wildcat" targets; and
- "engineering plays" with little reservoir risk in such sub-categories as lower-permeability sandstones, coal bed methane, gassy organic shales and "dead" oil in place.

Opportunities in these categories are relatively widespread in North America. However, they all require specialised knowledge of the earth sciences, drilling, well completions and operations. Pryme has extensive relationships within the community of United States oil and gas operators and Pryme's "deal flow" comprises opportunities in both categories.

Pryme is focussing on developing conventional oil and natural gas resources from typically high-permeability, highly saturated, virgin-pressure reservoirs. Consequently, Pryme's oil and gas wells will usually be capable of withstanding quite low product prices before their economic limit is reached.

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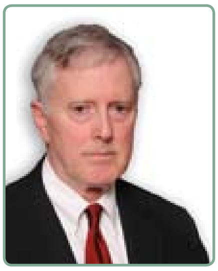
Glossary

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

Vice-Chairman's Letter



Dear Shareholder,

The year 2007 has been a turbulent one for the world oil and gas industry with little sign of abatement in 2008 or in the years following, barring *force majeure* class of events such as terrorist attacks or oil flow disruptions. Oil and natural gas prices are at very high levels, global demand is growing and supply is struggling to keep up.

US dollar oil prices have grown by 50% since March 2007 and, at the time of writing, have broken through the US$100 per barrel mark. Natural gas prices in the United States, while still well below oil equivalent prices, have also increased dramatically with the April contract price at over US$9 per Mcf. Even though oil and gas prices will continue to naturally fluctuate, the upward trend seems assured.

In the United States, which holds approximately 2% of world crude oil reserves, consumption is almost 25% of world oil production. With about 3% of world natural gas reserves, the United States consumes approximately 22% of global natural gas production and relies on imports for over 65% of its oil and about 15% of its natural gas supply. This dependence on imports is growing and so the security of oil and natural gas availability for the United States is a major concern.

Greenhouse gas generation is also increasing the pressure on natural gas prices. With new coal-fired power generation capacity becoming increasingly difficult to permit, the only near-to-medium term solution is the construction of more expensively fuelled natural gas-fired turbine generators.

Within this market setting there remain many opportunities for the oil and gas explorer who has a strong technical competence and outstanding relationships with other industry participants. Pryme is such a company - it is able to move quickly to identify, evaluate and secure good projects and rapidly shift emphasis away from any drilling that does not show early promise.

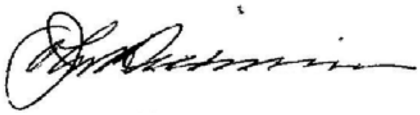
These market and operational fundamentals make up the perfect environment for Pryme to carry out its operations in the United States.

Operating mainly in Louisiana and with a preference for the Gulf Coast states, Pryme is in the fortunate position of being able to secure a number of attractive oil and gas projects through its energy sector relationships, carry out the necessary leasing and seismic data acquisition and step-up the value of new leasehold via our on-board technical competence. Now, with a diversity of projects in the natural gas and oil rich areas of Louisiana and the drilling phase commencing on a number of them, the platform for growth is established while taking into account the attendant mechanical, reservoir and geological risks.

Pryme will continue its project generation activities through 2008, it will also lift its drilling rate and significantly increase its production of oil and gas.

Pryme is grateful for the dedication and support shown by its shareholders over the past year and looks forward to rewarding them by growing the value of their investment.

Yours Sincerely



John Dickinson
Vice-Chairman

Managing Director's Report

Dear Shareholder,

It is with great pleasure that I present my 2007 report to you.

Last year was Pryme's first full year as a listed public company and it saw the number of projects grow from two to eight. During the year, the Company focused on executing its current projects, securing additional prospective acreage, acquiring seismic data and planning for expansion. Pryme has been positioning itself for continued growth through 2008 and beyond.

The 2007 year was characterised not only by Pryme's work but also by dramatic increases in the prices of oil and natural gas. Oil prices generally rose steadily throughout the year and are currently over US$100 per barrel. Natural gas prices were more volatile but, over the last few months of 2007 and the early part of 2008, have risen in line with oil. Also at the time of this report, natural gas contract prices are in excess of $US9 per Mcf. Continuing volatility in the prices of oil and natural gas, with an upward trend, is expected.

Since listing, Pryme has been a producer of oil enjoying the regular income generated from its LaSalle Parish project. The average revenue from the project in 2007 was US$85 per barrel. Towards the end of 2007, the LaSalle Parish revenue was supplemented with revenue from the first gas sales from the Raven project. Pryme expects Raven sales to grow through 2008 as it completes and brings on line additional wells there. The Company also expects the Turner Bayou and Saline Point projects to contribute to gas and oil revenues through the year.

During 2007, the Company expanded its portfolio of projects from two to eight through the generation of prospects across the state of Louisiana. Pryme's project generation strategy is to identify, evaluate and acquire opportunities that provide portfolio diversity in terms of geography, geology and risk. As a rule, Pryme will retain large working interests in projects involving the drilling of shallow targets. However, the greater expense and risk involved in testing deep targets are generally reduced by farming-out such projects and retaining involvement in the form of carried interests and overriding royalties. Two current examples of this strategy are the early 2008 sale of the Condor project to BP, with an overriding royalty reserved for Pryme, and the Atocha project which is in the final stages of being farmed out to another explorer. Exploration success at either of these projects has the potential to make a significant contribution to Pryme's financial performance. As Pryme grows and its financial strength increases, the balance of risk will shift from shallow low risk targets towards deeper, riskier and potentially more rewarding targets.

In 2007, a considerable effort was made to increase the Company's leasehold in the Turner Bayou project, shoot proprietary 3D seismic there and commence drilling the most promising targets. These activities were successful. However, frustrating delays in the completion of the seismic shoot were experienced; these, in turn, delayed the onset of drilling the first two wells at this project. Further delays were experienced in the State and Federal government permitting of subsequent wells at the project in late 2007 early 2008. As a result, the Company has taken steps to reduce the likelihood of similar delays impacting its program in the future and has allocated additional resources to the planning and management of prospect generation and drilling in 2008. Notwithstanding the inconvenience caused, I stress that the value of Turner Bayou has not been diminished as a result of these delays.

The performance of the Raven project has been promising. Two wells were drilled there in 2007 and Pryme is now part-way through flow testing of the second of these (Grable 15-1). Both Raven wells are flowing gas into the sales pipeline. Pryme's third Raven well will be drilled later in 2008 and the Company is planning to follow that up with an estimate of the oil and gas reserves for the project.

The first of two wells drilled into the Saline Point project was a dry hole. The second had promising oil shows but encountered some technical problems in completion. The well is located in a State-managed lake and access is limited to several months each year. When access is improved, the well will be repaired or an alternative will be drilled. Pryme expects to produce oil from Saline Point during 2008.

Two joint venture agreements were signed with Amelia Resources during the year. They cover the "high impact" Atocha project, which is currently the subject of farm-out negotiations, and the Checkmate project covering a little-explored region surrounded by areas of high historic production (both projects are more fully described in the Projects Section of the Annual Report from page 11 to 12). "High impact" projects are projects contained in prospective locations where exploration usually consists of high cost, deep drilling. Typically Pryme's interest in such projects will be small in relative terms. However, the impact of exploration success at a high impact project can be very significant for the financial performance of a company of Pryme's size

Pryme's business development activities took it into Texas during the later part of 2007. Pryme has acquired a large quantity of seismic data for re-processing and is also well

Managing Director's Report

advanced in discussing new joint venture opportunities there. This Texan initiative will form an important part of Pryme's business going forward.

During the year two new cornerstone investors, Mr Ian McCauley and Mr John Rawlins, joined the register as major shareholders. Mr McCauley and Mr Rawlins have both had a long involvement in the resources industry as the founders of successful businesses and as investors. Since they became shareholders their support has been invaluable. I would like to welcome Ian and John to Pryme.

Pryme's greatest asset is its people and it has been fortunate enough to grow its team of exceptional talent throughout the year, not only in the field but also at board level. The team comprises Pryme employees as well as its very experienced and capable project and technical advisers who are committed to the Company. The team performs key roles in accessing very good projects, evaluating them and developing effective project execution plans.

Early in 2008, George Lloyd was appointed to Pryme's Board as a non-executive director and Chairman. George has extensive resource industry experience in board, senior management and corporate advisory roles. His appointment has allowed John Dickinson to assume a more operational role as Vice-Chairman, enabling him to concentrate on Pryme's oil and gas operations on the ground. I would like to thank John for his important and valuable contribution to Pryme as its founding Chairman.

In closing, I would like to thank all shareholders for their patience and resolve during these early growth stages of the Company. The top 40 shareholders in the Company remain, for the most part, unchanged, something of which I am extremely proud. I am very grateful for the support and commitment of all shareholders throughout 2007. Your Company is committed to operating with integrity and delivering to all shareholders the increase in wealth which they demand and deserve. I can confidently say that the strategy Pryme has in place and the diversity of its projects will be the keys to Pryme's success.

We look forward to an exciting and rewarding 2008 and will keep you updated on events and all matters regarding Pryme and your shareholdings throughout the year.

Justin Pettett
Managing Director

Chief Operating Officer's Report 2007

Dear Shareholder,

In 2007, Pryme grew through project generation, data acquisition, exploration drilling and production. It is well positioned for growth in oil and gas reserves and production in 2008 and beyond.

Drilling Results

In 2007, Pryme participated in the drilling of seven wells. Five of these are either producing, awaiting completion or awaiting hook-up to sales pipelines.

The LaSalle Parish project saw some development in 2007 through the drilling of the Coleman 8 well. Additional production wells are planned for 2008. However, this project is nearing a level at which the development of additional production wells will be difficult without first carrying out further delineation drilling.

Starting in mid 2007 Pryme began converting its leasing and 3D seismic data acquisition plays into drillable projects and drilled two holes into each of the Turner Bayou, Raven and Saline Point projects with encouraging results.

Well Testing and Production Results

The increase in oil production from the LaSalle Parish project contributed most of Pryme's production growth in 2007. Gas sales from the first completed Raven project well commenced late in 2007, production from this project is expected to grow significantly through the first half of 2008.

The following is a summary of the status and initial results of the wells drilled by Pryme in 2007:

Prospect (well)	Status	NRI %	Test Results (approximate)	Recent Production (approximate)
Raven (Spinks Middlebrooks 11-1)	Producing	30	300 Mcfd	150 Mcfd
Raven (Grable 15-1)	Producing Awaiting "C" Sand Completion	30	Price Sand – 440 Mcfd	Price Sand – 440 Mcfd
LaSalle Parish (Coleman 8)	Producing	7.31	-	380 bbl/mth
Saline Point (No.1)	Plugged	18	-	-
Saline Point (No.2)	Shut-in Awaiting remediation	18	Not tested	-
Turner Bayou (Bordelon)	Awaiting Completion	39	Not tested	-
Turner Bayou (Dupuy)	Plugged	39	-	-

Leasing & Data Acquisition

The competition for onshore leasehold rights was intense throughout 2007. By the end of the year Pryme's gross lease and lease option position was nearly 50,000 acres with the bulk of 2007 leasehold acquisitions being for Pryme's ongoing development of the Raven and Turner Bayou projects. The holdings were reduced by approximately 1,000 acres with the sale of the Condor project to BP in early 2008, and the Atocha project, approximately 6,300 acres, is planned for a farm-out by the second quarter of 2008.

The Company, although disappointed in the time it has taken to shoot and acquire seismic data, aggregated approximately 80 square miles of high quality 3D data. Evaluation of this data for shallow drilling prospects is continuing and deeper prospect evaluation has commenced.

In addition to seismic shot by Pryme, the Company also acquired a license to reprocess and evaluate 1,128 square miles of 3D data and over 500 miles of 2D data in core areas in the Gulf Coast Region. Pryme continues to reprocess and evaluate all of the data in its library with the objective of generating drillable prospects.

Chief Operating Officer's Report 2007

Oil and Gas Reserves

As a policy, Pryme does not publish internal reserve calculations for producing projects but waits until third-party audited estimates are available. A complete reserves audit will be undertaken at the end of 2008.

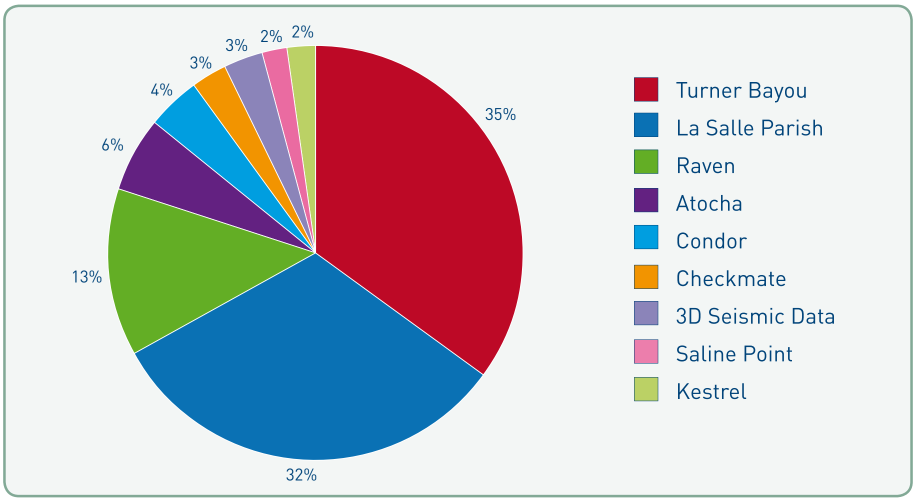
Expenditure

The table below and corresponding pie chart show Pryme's total investment to the end of 2007 in its projects in Louisiana.

In 2007, capital expenditure for all investing activities was approximately $7.6 million, $2.0 million of which was for drilling. This brings total expenditure to date in Pryme's projects to $16,635,723 as shown in the following table. This 80/20 total expenditure to drilling expenditure ratio is expected to move towards 50/50 as the drilling of prospects already generated and leased increases.

Project	Total ($)	%	Description
Turner Bayou	5,879,636	35	Proprietary 3D Seismic
La Salle Parish	5,347,544	32	Proven Producing Oil
Raven	2,095,925	13	Cotton Valley Sand
Atocha	1,002,845	6	Tuscaloosa Trend
Condor	752,269	4	Tuscaloosa Trend
Checkmate	417,014	3	Underexplored Basin in Florida Parishes
3D Seismic Data	516,941	3	Commercial data purchased for evaluation
Saline Point	315,000	2	Intermediate Wilcox Oil
Kestrel	308,549	2	Hackberry Sands
Grand Total	**16,635,723**	**100**	

Total Project Expenditures on a per project basis in AUD – financial year ended 31 December 2007- table



Total Project Expenditures on a per project basis in AUD – financial year ended 31 December 2007- graphic

Total Project Expenditures through 31 December 2007

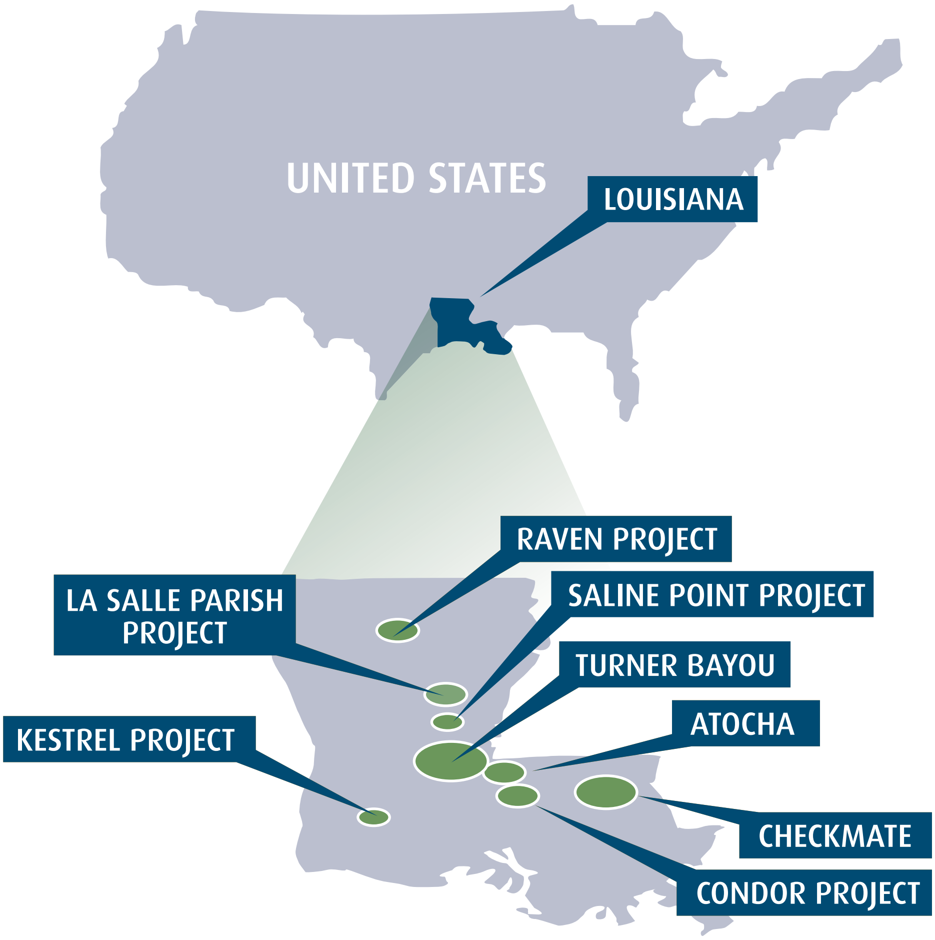
Outlook for 2008

Capital expenditures for 2008 will be significantly greater than for 2007. Pryme will participate in the drilling of twice the number of wells that were drilled in 2007. Nearly one-half of the wells will be "high impact" wells drilled to depths of 10,000 feet or more which, if successful, will significantly increase revenues.

Pryme is very encouraged with the prospects for the 2008 drilling program.

Ryan Messer
Chief Operating Officer

Projects



LaSalle Parish Project (5% - 21.5% Interest)

Pryme has interests ranging from 5% to 21.5% in 25 wells in 7 fields within the project area, as shown below. Production of oil from zones at depths between 1,400 feet to 5,000 feet is stable and continues without incident. Revenues increased considerably through the year due to higher oil prices. Pryme's attributable production from LaSalle for the year was 17,862 barrels of oil.

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

Based on its evaluation of the oil resources and deliverability for this project, Pryme has identified at least four new drilling targets which are located variously in the Northwest Rogers and Routh Point Fields. Pryme's plan is to review the exploration program with the operator and, subject to the results of the review, drill at least three new wells with the objective of increasing overall oil production and revenue from the project area.

Newly drilled Coleman No.8 well in the Routh Point Field

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Turner Bayou 3D Seismic Project (52% Interest / 39% NRI)

Pryme has a 52% interest (39% NRI) in the Turner Bayou project comprising approximately 80 square miles (50,000 acres) which have been covered by Pryme's proprietary 3D seismic. Primary targets consist of six prospective formations ranging in depth from the Frio formation at 3,000 feet through to the Tuscaloosa formation at 16,000 feet. Whilst the primary targets are natural gas bearing formations, oil accumulations in the Frio are also possible but not as easy to detect by seismic interpretation.

The Turner Bayou project contains shallow and deep targets, some within relatively small formations in segments or sand lenses with areas up to one quarter-mile square and others with areas of several square miles. These formations are highly permeable, generally contain relatively high volumes of gas or oil per unit of host rock volume and recoveries are expected to be high. As a result, it is not necessary to drill with high well densities in order to drain a formation. In addition, the typical flow rates are such that capital costs can normally be rapidly recovered and redeployed in other value adding activities.

Based on Pryme's seismic interpretations, twenty-four potential drill targets have been identified so far. These will be progressively tested with each test taking into account the new information gained from all previous tests.

During the latter part of the year, two Frio/Miocene wells were drilled into targets identified from Pryme's 3-D seismic data. The first of these found two gas intervals in the Frio formation, both of which indicated commercial potential from the well log interpretation. It is expected that gas will be produced in sequence from these intervals when flow lines are installed. The second Turner Bayou well was a dry hole. However, it provided valuable information for use in the siting of subsequent wells.

Drilling of Bordelon 25 No.1 in Turner Bayou

Since the year end drilling progress at Turner Bayou has been impacted by permitting delays by State and Federal authorities. Strategies have been developed to mitigate the impact of these delays in the future and it is expected that seven new wells will be drilled in the project prior to the end of June this year.

Whilst drill-testing the Frio formation, the Company is also evaluating deeper Turner Bayou project targets which are contained within intervals at depths from 8,100 feet to over 18,000 feet. The cost and risk involved in sole drilling of these targets is excessive in relation to Pryme's present size and funding capacity. Accordingly, our strategy is to farm-out some deeper targets, to companies which specialise in exploring at such depths, for an up-front cash payment and a free carried interest through the completion and hook-up of the first two test wells.

Raven Project (40% Interest / 30% NRI)

The Raven project covers mineral leases in the prolific Cotton Valley and Hosston natural gas trends in Lincoln Parish, Louisiana. The project exists along a natural gas fairway of Cotton Valley marine bars which are the exploration targets for the project. Approximately ten drilling locations have been identified in the project area. Acreage leasing is continuing. Pryme has a 40% working interest (30% Net Revenue Interest) ownership in the project.

The producing life of the Cotton Valley and related intervals is quite long, normally around twenty years. Cotton Valley gas typically has a high Btu content and oil is often produced from the same formation as gas. Raven is different from Turner Bayou in that the Cotton Valley formation covers many hundreds of square miles and is regarded as an "engineering play." The exploration objective is the achievement of the trend average of production over a number of wells. The geological risk is limited to finding the parts of the Cotton Valley that are most permeable.

Two wells were drilled in the Raven project during the year, with the second well undergoing completion in the early part of 2008.

Production from Pryme's first Raven well seems to have stabilised at approximately 140,000 cubic feet of gas, plus several barrels of condensate, per day. This is at the lower end of the Cotton Valley statistical range.

The second well in the Raven project (Grable 15#1) commenced drilling in November and reached planned total depth of 11,000 feet on 17 December. As predicted,

Projects

the two primary target zones, the "C" Sand and the deeper "Price" Sand, were encountered. Strong gas shows were identified from the mud log during the drilling phase and the decision was made to set production casing. After testing the Price zone, the "C" zone will be completed further up the hole and flow tested; then both zones will be produced simultaneously. Typically, one Cotton Valley well can drain a formation area ranging from one quarter square mile to one square mile.

Barring any mechanical difficulties, Pryme hopes the two-well average production from the Raven project will be close to the characteristic production of the trend of 1,000Mcfd and 20 barrels of condensate per well per day.

The third well in this project is scheduled to be drilled in late April 2008, pending evaluation of the first two Raven wells. Upon the completion of a third well, and after establishing production histories for all three wells, the Company should have sufficient information to enable a reservoir engineer to estimate Pryme's oil and gas reserves for the Raven project.

Justin Pettett (Pryme's Managing Director), Ian McCauley, Mark McCauley and John Rawlins (shareholders) on site at the Spinks Middlebrook 11#1 well in the Raven Project

Saline Point Project (24% Interest / 18% NRI)

Two wells have been drilled in this project. The first was a dry hole, but it contributed to a re-mapping of the geology and a re-positioning of the site for the second well. The second well encountered oil between boundary zones of shale, which is a desirable stratigraphic situation. Commercial oil flow was not attained at this time because of too much formation water in the wellstream. The operator believes that there is a connection to a water zone, between the outside of the well casing and the borehole, and has nominated remedial action. Recompletion of this well or, alternatively, the drilling of an offset twin well, has been postponed until mid-2008 when the surrounding area will be accessible by vehicles and drilling/well servicing equipment.'

Newly installed production and storage facilities in the Saline Point project

Atocha Project (100% Interest / JV with Amelia)

Pryme's *High Impact Deep Exploration Projects* strategy is set in the prolific Tuscaloosa Trend in Louisiana. Exploration interest in the Tuscaloosa Marine Shale (TMS), a new oil

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objective that is in the "proof of concept" stage in Louisiana, continues to build in areas in proximity to Pryme's leases.

The Atocha Project is the first fruit of this strategy and, following completion of a farm out agreement, drilling is expected to be underway by the end of June 2008. The Atocha project concept has been developed from extensively reprocessed 2D seismic data.

To date, over 6,300 acres have been aggregated by Pryme in the Atocha project. Leasing is complete and title to the drill site is being confirmed.

Negotiation of the farm-out agreement is expected to be complete in the first quarter of 2008. Under the terms of the proposed agreement Pryme is expected to recover its costs, retain a carried working interest through to production and receive an overriding royalty interest. The agreement will cover a 700 square mile area of mutual interest resulting in a carried interest for Pryme in up to six wells within three separate project areas.

The first Atocha project well is planned to be drilled to 17,700 feet to test an up-dip, 3-way fault closure location. This will offset an existing well which was drilled in the early 1980s and is believed to have a 125 foot thick section of bypassed gas. Under the terms of the proposed farm-out agreement, and if drilling is successful, this well has the potential to increase the value of Pryme substantially with no additional financial risk.

Further details on Atocha and the potential value for Pryme through this farm-out will be announced once the transaction has been completed.

Kestrel Project (100% Interest / JV with Wave Exploration)

Kestrel is a Hackberry Sands formation project located in Calcasieu Parish, Louisiana and generated from processing of 3D seismic data. The project area has been fully leased and is currently being marketed to third parties. The project is located on 320 acres.

It is proposed that Kestrel be drilled to a depth of 13,500 feet, targeting four "Hackberry" natural gas and condensate sands. If successful, two wells should effectively drain this target.

Condor Project (100% Interest / JV with Wave Exploration)

The Condor Project is located along the Tuscaloosa Trend in central Louisiana. The Tuscaloosa Trend has recently experienced a resurgence in deep exploration activity which has been led by petroleum major BP. The Condor project area includes multiple Tuscaloosa targets that have historically produced more than 100 Bcf of gas.

Following the year end, Pryme completed the sale of the Condor Project to BP. Pryme received a cash payment and retained a 1% overriding royalty interest in future wells drilled on the project's 1,069 net acres. The exact details of the transaction cannot be released for commercial reasons.

Exploration success by BP at levels typical of the Tuscaloosa Trend will return significant royalty income to Pryme.

Checkmate (100% Interest / JV with Amelia Resources)

The Checkmate Project is a joint venture with Amelia Resources LLC to develop regional exploration prospects throughout an area of mutual interest covering over 5,000 square miles in the "Florida Parishes" of eastern Louisiana. The exploration targets will range in depth from 3,500 feet to 25,000 feet and will give Pryme an inventory of prospects to develop and drill over the next ten years.

Pryme believes that the Florida Parishes are one of the most under-explored regions in south Louisiana. The area is surrounded by very prolific fields to the north, east and west. Gas reserves of 2.3Tcf have been produced from Lower Cretaceous reservoirs in the northeastern corner of the project area. 180Bcf has been produced from the Mooringsport formation at the eastern edge of the project area. Tuscaloosa fields on the Upper Edwards shelf are reported to contain up to 8 million barrels of oil.

Checkmate is currently in the geological/geophysical research phase with prospects being generated over the next 6 months for possible leasing and drilling in late 2008.

Pryme's joint venture partner, Amelia Resources, has 16 years of exploration experience in the project area. The joint venture has assembled 500 miles of 2-D seismic data and 16,200 stations of gravity data. This information, integrated with subsurface control, has been used to identify regional "areas of interest" and prospective leads. The joint venture will also define multi-target prospective areas for more sophisticated analysis with 3-D seismic.

Checkmate provides Pryme with a long-term project area with the potential for numerous prospects.

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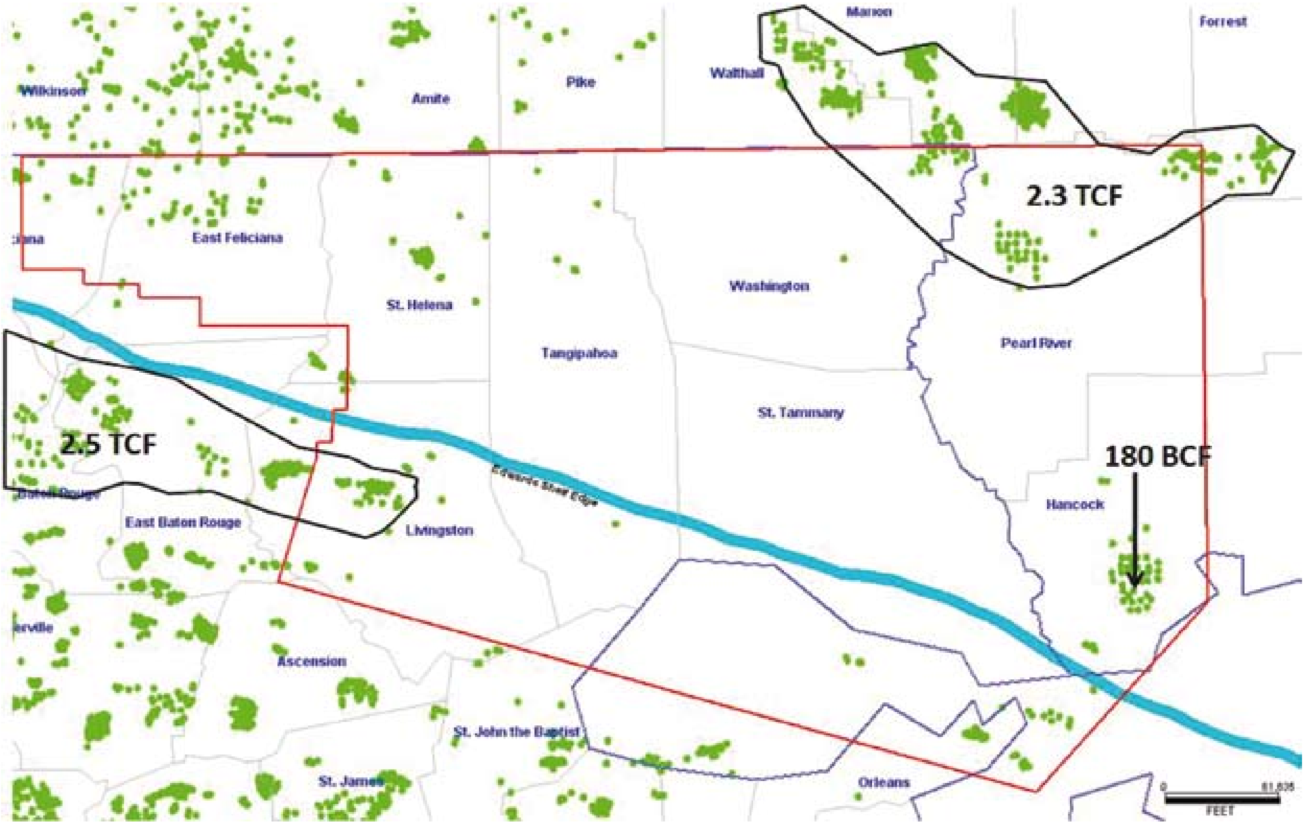

Checkmate Project outline and existing production

CORPORATE

Several investors and stockbrokers visited Pryme's operations in the United States in December 2007. The photograph below was taken on the site of the second Raven Project well, the Grable 15 No.1.

We look forward to hosting more shareholders in the United States throughout 2008.

From left to right, John Rawlins (Pryme Shareholder), Ryan Messer (Pryme Director), Justin Pettett (Pryme Managing Director), Mark McCauley (Pryme Shareholder), Mrs Grable (mineral rights and surface owner of the Grable 15 No.1 well), Ananda Kathiravelu (Pryme Director), John Ceccon (Pryme Shareholder), Rohan Edmondson (Pryme Shareholder) and Ian McCauley (Pryme Shareholder).

Private Placement

In 2007, Pryme completed two private placements to strategic and cornerstone investors.

In April, Pryme released a short-form prospectus to raise $3,000,000. The offer was fully subscribed and 6,666,667 ordinary shares with 3,333,333 attaching options were issued at a price of 45 cents. The options have an exercise price of 40 cents and expire on 30 June 2008.

In October, the Company made a private placement of 11,562,500 fully paid ordinary shares at $0.32 per share to raise $3.7 million.

Following the year end, a further placement was made to raise $6.58 million by the issue of 18,800,000 fully paid ordinary shares at $0.35 per share.

Projects

The additional capital raised through these placements has enabled Pryme to expand its project base considerably and to diversify the mix, in terms of risk, location and geology, of projects throughout Louisiana.

Appointment of Non-Executive Director and Chairman

On 29 January 2008, Pryme announced the appointment of Mr George Lloyd as Non-Executive Director and Chairman.

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

Mr Lloyd has more than 25 years' senior management and public company board experience in the resources and energy sectors. He is Chairman of Asian-based corporate advisory firm AWR Lloyd which provides corporate finance, corporate strategy and investor relations advice to resource companies in the Asia and Pacific regions. Mr Lloyd's career focus has been business development, corporate strategy, mergers and acquisitions and exploration management.

Following the appointment of Mr Lloyd as Chairman, Mr John Dickinson stood down as Chairman and continues his important role within Pryme as Vice-Chairman. As Pryme's operations continue to expand, this will enable Mr Dickinson to concentrate more on U.S. oil and gas operations on the ground.

Mr Philip Judge resigned from the Board as a Non-Executive Director of Pryme in order to focus on his primary business interests. Mr Judge is a substantial shareholder of Pryme and will continue to support the growth of the Company throughout the United States.

Key Drivers in Pryme's Strategy

Explore proven oil and gas areas

Remain onshore to reduce costs

Close to existing infrastructure

Utilize 3D seismic to reduce risk

Take a material ownership

Where possible control operations

Secure acreage positions prior to larger players

Short lead time to drilling

Utilize team on the ground in the US

Corporate Governance Statement

Pryme is committed to maintaining the highest possible standards of corporate governance. In determining what those high standards should involve, Pryme has turned to the ASX Corporate Governance Council's (Council) *Corporate Governance Principles and Recommendations* (ASX Principles).

In certain instances, due to the size and stage of development of Pryme and its operations, it may not be practicable or necessary to implement the ASX Principles in their entirety. In these instances Pryme will identify the areas of divergence.

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

1. The Board lays solid foundations for management and oversight

Role of the Board

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

Responsibilities of the Board

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

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

(a) oversight of control and accountability systems;

(b) appointing and removing the:
  i. Managing Director;
  ii. Chief Financial Officer; and
  iii. Company Secretary;

(c) input into and final approval of corporate strategy;

(d) approving the annual operating budget;

(e) approving and monitoring the progress of major capital and operating expenditure;

(f) monitoring compliance with all legal and regulatory obligations;

(g) reviewing any risk management system (which may be a series of systems established on a per-project basis) and internal compliance and controls;

(h) monitoring any Executive Officer's performance; and

(i) approving and monitoring financial and other reporting to the market, shareholders, employees and other stakeholders.

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

At its meeting held on 27 February 2008, the Board of Pryme established a Remuneration & Nomination Committee, an Audit Committee and a Risk Management Committee. These committees currently comprise the full Board of Pryme and have adopted formal charters which have been posted on the website of the Company (under Corporate Governance). While these Committees do not comply with all ASX Principles regarding such committees, the areas of non-compliance are attributable to the size and stage of development of Pryme and the mix of skills on the Board. As the Company matures it is proposed that committee membership and charters will be reviewed to achieve better alignment with the ASX Principles.

During the 2007 year, the Board held 20 meetings to address significant matters. The Board members' attendance record is set out on page 25 of the 2007 Directors' Report.

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

Role of senior executives

It is the role of senior executives to manage Pryme in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of senior executives in carrying out these delegated duties. The Board conducts an annual review of the performance of senior executives against pre-determined qualitative and quantitative key performance indicators. The last such performance evaluation was conducted in July 2007. Senior executives undergo an induction programme to gain an understanding of Pryme's financial position, its strategies, operations and risk management policies as well as the rights, duties, responsibilities and roles of the Board and senior executives.

Corporate Governance Statement

2. The Board is structured to add value

Composition of the Board and details of Directors

On 29 January 2008, Mr George Lloyd was appointed as a director and Mr Philip Judge resigned as a director. Pryme currently has five 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 remaining three directors - Mr George Lloyd (Chairman), Mr John Dickinson (Vice-Chairman) and Mr Ananda Kathiravelu are non-executive directors. Further details about the directors are set out on pages 21 to 22 of the 2007 Directors' Report.

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

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

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

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

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

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

The Chairman, Mr Lloyd, is an independent non-executive director and there is a clear division of responsibility between the Chairman and the Chief Executive Officer. Of the remaining two non-executive directors, Mr Dickinson is also an independent director. However, Mr Kathiravelu, who is a director of Armada Capital Ltd (formerly First Capital Corporate Ltd), an entity which provided corporate advisory services to Pryme in the lead up to, and since the Company's ASX listing, can not be termed as independent. It is the intention of Pryme, in time, to appoint additional non-executive directors in order to comply with the recommendation that a majority of the Board should be independent; nevertheless all incumbent directors bring an independent judgment to bear in Board deliberations.

Advisory Board

Pryme has engaged a particular group of individuals with vast experience in petroleum engineering, land and geology as its Advisory Board. This Advisory Board is a unique resource to which senior executives can refer matters at any time for their input and professional advice. In addition, the Advisory Board and senior executives meet quarterly to discuss the strategic direction of Pryme and its priorities for the coming 12 months. Further details about the members of the Advisory Board are set out on page 23 of the 2007 Directors' Report.

Remuneration & Nomination Committee

As mentioned above, this committee was established on 27 February 2008 and 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. Details of the Committee members' attendance at Committee meetings will be described in the 2008 Annual Report.

Performance Review/Evaluation

The Board intends to conduct an evaluation of its performance annually. The Remuneration & Nomination Committee is now responsible for evaluating the performance of individual directors and of the Board collectively. In case of Pryme, this group of individuals are akin to a Nomination Committee as prescribed by the ASX Principles. Presently, this evaluation is conducted internally. The objective of this evaluation will be to identify strengths and weaknesses and provide best practice corporate governance to Pryme. In future years this process may be

Corporate Governance Statement

carried out by an external consultant.

Education and Induction

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

- details of the role and responsibilities of a director;
- formal policies on director appointment as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- access to a copy of the Board and Committee Charters;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of Pryme;
- a synopsis of the current strategic direction of Pryme including a copy of the current strategic plan and annual budget; and
- a copy of the Constitution of Pryme.

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

Independent Professional Advice and access to Pryme information

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

Selection and appointment of new Directors

The procedure that Pryme follows for nomination, selection and appointment of new Directors and re-election of incumbent directors forms part of the Board Charter which is available on the Pryme website (under Corporate Governance).

3. The Board promotes ethical and responsible decision making

Confidentiality

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

Company Code of Conduct

To ensure that Pryme maintains the highest standards of integrity, honesty and fairness in its dealings with all stakeholders, Pryme has an established a formal Code of Conduct and Ethics (Code). This Code acts as a guide for compliance with legal and other obligations to stakeholders. These stakeholders include employees, contractors, clients, customers, suppliers, shareholders, government authorities, regulators, creditors and the community as whole. This Code governs all Pryme commercial operations and the conduct of directors, employees, consultants, contactors, advisors and all other people when they represent Pryme.

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

Ensuring and monitoring compliance with the Code

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

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

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

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

Related Party Transactions

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

Corporate Governance Statement

Trading in Pryme Shares

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

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

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

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

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

Compliance with Legislation affecting Pryme's Operations

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

4. The Board safeguards integrity in financial reporting

The Board has in place a structure of review and authorisation designed to ensure the truthful and factual presentation of Pryme's financial statements. In relation to audit, the Board has policies that were established to protect the integrity of Pryme's financial reporting. The audit policy of the Board includes the requirement to:

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

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

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

Corporate Governance Statement

The procedure for selection and appointment of the external auditor and for the rotation of external audit engagement partners is described below:

Mandatory selection criteria

Candidates for the position of external auditor of Pryme must be able to demonstrate complete independence from Pryme and an ability to maintain independence through 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 criteria

Other than the mandatory criteria mentioned above, 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 of the external auditor on an annual basis.

Audit Committee

In accordance with ASX Listing Rule 12.7, Pryme is not required to establish an Audit Committee. However, as mentioned above, this committee was established on 27 February 2008 and is primarily responsible for determining the reliability and integrity of financial information for inclusion in the financial statements, audit, accounting and financial reporting obligations of Pryme, safeguarding the independence of external auditors and financial risk management. Details of the Committee members' attendance at Committee meetings will be described in the 2008 Annual Report.

5. The Board makes timely and balanced disclosure

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.

Continuous Disclosure

The Board has established a written Continuous Disclosure Policy for ensuring compliance with ASX Listing Rule disclosure requirements. The Board has designated the Managing Director as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

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

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

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

A copy of the Continuous Disclosure Policy is available on the Pryme website (under Corporate Governance).

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

Details of payments to executives for the 2007 year are disclosed on page 31 of the 2007 Directors' Report. Core entitlements of any new executives will be disclosed at the time when they are agreed as well as at the time the actual payment is made.

6. The Board respects the rights of shareholders

Shareholder Communication

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

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

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

Corporate Governance Statement

7. The Board recognises and manages risk

Business Risk Management

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

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

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

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

Due to the size and scale of operations of Pryme, there is no separate internal audit function. The executive directors 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 is reviewed by the Board at least annually

As mentioned previously, a Risk Management Committee was established on 27 February 2008 and is primarily responsible for business and operational risk management of Pryme Details of the Committee members' attendance at Committee meetings will be described in the 2008 Annual Report.

Attestations by Chief Executive Officer and Chief Financial Officer

In accordance with Recommendation 7.3 of the ASX Principles, the Managing Director has stated in writing to the Board:

"That:

- 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 which implements the policies adopted by the Board; and
- Pryme's risk management and internal compliance and control system is operating efficiently and effectively in all material respects in relation to financial reporting risks."

8. The Board remunerates fairly and responsibly

Remuneration Committee

The Remuneration & Nomination Committee established on 27 February 2008 reviews all remuneration and performance related matters of Pryme.

Remuneration Report and Remuneration Policies

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

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

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

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

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

The Remuneration Report for the 2007 year and further details about the Remuneration Policy of Pryme are set out on pages 27 to 35 of the 2007 Directors' Report.

Directors' Report

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

1. Directors

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

(a) George Lloyd – Chairman

Independent Non–Executive Director (Appointed 29 January 2008)

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

He has more than 25 years' senior management experience in the resources and energy sectors, with a focus on business development, corporate strategy, mergers and acquisitions and exploration management. He is the Chairman of AWR Lloyd Limited, an Asian-based corporate finance and strategy advisor to the energy, mining and metals industries in the Asia-Pacific region, and a member of the Advisory Board of Resource Capital Funds LLP, a US-based private equity fund with approximately US$1 billion funds under management, which invests in and provides development capital to minerals projects worldwide.

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

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

(b) John Dickinson – Vice-Chairman

Independent Non–Executive Director (Appointed 1 December 2005)

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

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

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

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

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

Executive Director (Appointed 1 December 2005)

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

Directors' Report

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

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

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

(d) Ryan Messer - Chief Operating Officer

Executive Director (Appointed 1 December 2005)

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

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

(e) Ananda Kathiravelu

Non–Executive Director (Appointed 1 December 2005)

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

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

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

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

(f) Philip Judge

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

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

Mr Judge is also involved with the following companies:

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

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

Directors' Report

2. Company Secretaries

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

Janine Rolfe (BEc, LLB (Hons)) is a corporate lawyer specialising in company secretarial services. She is the company secretary of three other ASX listed entities: Tishman Speyer Office Fund, Walter Diversified Services Limited and Quickflix Limited, as well as a number of unlisted companies. Swapna Keskar (MCom, LLB) is company secretary of a number of unlisted entities and is a member of Chartered Secretaries Australia, The Institute of Company Secretaries and Administrators, UK and the Institute of Company Secretaries of India.

3. Advisory Board

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

(a) Donald Ellison – Advisory Director for Petroleum Engineering

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

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

(b) James Stewart – Advisory Director for Geology, Petroleum Land and Environmental studies.

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

(c) Craig Sceroler – Advisory Director for Exploration

Mr Sceroler graduated from the College of Engineering, Louisiana Tech University with Bachelor of Science in Geology. Over the past eighteen years he has generated prospects in the south Louisiana Miocene trend as well as in the central Louisiana Eocene Wilcox trend. His use of subsurface geology (defined as the correlating and mapping of formations identified by logging previous wells) integrated with the geophysics of 2-D and 3-D seismic data, makes it possible for Pryme to reduce its exploration risk as much as possible. Mr Sceroler has previously been involved as a staff geologist with Ecotech Environmental, Inc., working on remediation projects associated with ground water contamination and with Pentagon Petroleum Company developing plays in the Eocene Wilcox trend. He was also directly involved with the drilling of over 60 Wilcox wells through three drilling programs.

4. Principal Activities

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

Directors' Report

5. Review of Operations and State of Affairs

A review of and information about the Consolidated Group's operations, including the results of those operations and changes in its state of affairs during the year together with the information about the financial position of the Consolidated Group, appears in the 2007 Annual Report. There are no other significant changes in the state of affairs of the Consolidated Group.

6. Events Subsequent to Reporting Date

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

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

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

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

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

7. Likely Developments

The Consolidated Group intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America. The strategies and objectives of the Consolidated Group are reviewed and discussed in greater detail in the 2007 Annual Report.

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

8. Environmental Regulations and Performance

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

There have been no significant known breaches of the Consolidated Group's licence or permit conditions. Furthermore, no government agency has notified the Consolidated Group of any environmental breaches during the period ended 31 December 2007.

9. Dividends

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

Directors' Report

10. Options and Rights

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

Unissued Shares Under Option

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

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

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

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

Outstanding Incentives

As at the date of this Report, there were 11,813,850 Options outstanding under the Pryme Directors' Incentive Option Plan (DIOP). The rights to exercise these options will only vest if Pryme achieves certain performance hurdles as set out in page 29.

As at the date of this Report, there were 4,760,000 Rights outstanding under the Pryme Directors' Share Incentive Plan (DSIP). Rights will only vest if Pryme achieves certain performance hurdles as set out in page 29.

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

Shares issued on exercise of options

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

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

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

11. Directors' Meetings

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

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

Directors' Report

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

12. Directors' Interests

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

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

[1] Further information on Options granted to directors as part of their remuneration is set out on page 29.

[2] Further information on Rights granted to directors as part of their remuneration is set out on page 29.

[3] During the year, 759,000 options vested under the DIOP. None of these options were exercised. 2,691,000 Options which remain under the DIOP may vest before 30 June 2009. For further information, refer to page 29 of the Remuneration Report.

[4] During the year, 1,100,000 options vested under the DIOP, out of which, 500,000 were exercised. 3,900,000 Options which remain under the DIOP may vest before 30 June 2009. For further information, refer to page 29 of the Remuneration Report.

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

[6] Equivalent to 11,100 ordinary shares.

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

13. Indemnification and Insurance of Officers and Auditors

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

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, Moore Stephens, Pryme's auditor has the benefit of an indemnity to the extent Moore Stephens reasonably relies on information provided by Pryme which is false, misleading or incomplete. No amount has been paid under this indemnity during the financial year ending 31 December 2007 or to the date of this Report.

14. Non - Audit Services

Details of the amounts paid to Moore Stephens as the auditor of Pryme for audit and non-audit services provided during the year are set out in Note 6 to the financial statements.

Directors' Report

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

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

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

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

  ii a description of all non-audit services undertaken by Moore Stephens and the related fees have been monitored by the Board to ensure complete transparency in relation to services provided; and

  iii the declaration required by section 307C of the Corporations Act confirming independence has been received from Moore Stephens.

The auditor's independence declaration under section 307C of the Corporations Act is set out on page 37 and forms a part of the Annual Financial Report for the year ended 31 December 2007.

15. Proceedings on behalf of the Consolidated Group

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

16. Remuneration Report (Audited)

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

Remuneration Policies and Practices

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

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

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

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

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

Non-Executive Director Remuneration

Fees

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

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

Directors' Report

Equity Participation

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

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

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

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

Executive Director Remuneration

Salaries

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

Equity Participation

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

Retirement Benefits

Details of the retirement benefits for each of the executive directors are set on page 35.

Other Benefits

Executive directors do not receive other benefits.

Superannuation

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

Directors' Report

Relationship between Policy and Pryme's Performance - audited

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

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

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

Under this Plan, directors may receive up to a number of options in three tranches which will vest and thereby permit the holder to exercise the options depending on the achievement of the hurdles described below. Vested options convert to ordinary shares on a one-for-one basis.

The exercise price of each of the Options is 20 cents and the expiry date is 30 June 2009.

Hurdles –

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

2. Upon the successful conclusion of the 3D data acquisition (receipt of field tapes) the evaluation thereof and the preparation from the 3-D data of at least ten (10) drilling prospects in the South Central Louisiana seismic play and a total of 1,000,000 cubic feet per day (1,000mcfd) or oil equivalent (where the oil equivalent is 6,000 cubic feet (6mcf) equals 1 barrel of oil) net to Pryme is produced within the Performance Period.

3. Upon Pryme achieving an annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the Performance Period.

The performance period for the second and third hurdles is from 1 July 2006 to 30 June 2009 (inclusive).</td><td>This Plan is a medium-term incentive that rewards the directors upon Pryme's achievement of key project milestones.

It is envisaged that with the:

• increase in net operating income from the La Salle Parish Project; and

• production of oil from South Central Louisiana 3D,

Pryme's earnings will increase.

Furthermore, achievement of the pre-determined EBIT target will mean that Pryme has in fact increased its earnings.

An increase in Pryme's earnings will in-turn, positively affect shareholder wealth. The Board envisages that with time, dividends would be paid out of retained earnings and the improvement in Pryme's operations will be reflected in an increasing share price.</td></tr>
<tr><td>Directors Share Incentive Plan (DSIP)

Under this Plan, directors are granted rights which may vest upon the satisfaction of the hurdle described below. Vested rights automatically convert to ordinary shares on a one-for-one basis.

Hurdle –

Pryme achieving annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the Performance Period.

The performance period for this hurdle is from 1 July 2006 to 30 June 2009 (inclusive).</td><td>This Plan was introduced to acknowledged the role of the founding member directors and ensure their continual involvement in Pryme over the next few years. In that respect, it is a long-term incentive.

Please refer to above discussion in relation to EBIT for the relationship between this element of remuneration, intended company performance and intended shareholder wealth.</td></tr>
</table>

Directors' Report

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

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

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

REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS [1]		TOTAL	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	CASH, SALARY & COMMIS-SIONS	CASH PROFIT SHARE	NON-CASH BENEFIT	TOTAL	SUPER-ANNUATION	LONG TERM BENEFITS	OPTIONS	RIGHTS			
	$	$	$	$	$		$	$	$	%	%
DIRECTORS											
Non-Executive											
JOHN DICKINSON											
2007	104,311	-	-	**104,311**	-	-	291,000	267,890	**663,201**	84	44
2006	78,539	-	-	**78,539**	2,492	-	153,870	143,244	**378,145**	79	41
ANANDA KATHIRAVELU											
2007	81,795	-	-	**81,795**	7,362	-	-	-	**89,157**		
2006	48,932	-	-	**48,932**	2,453	-	-	-	**51,385**	-	-
PHILIP JUDGE											
2007	-	-	-	-	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-	-	-	-	-
Executive											
JUSTIN PETTETT Managing Director											
2007	296,556	-	-	**296,556**	26,619	-	448,000	413,200	**1,184,375**	73	36
2006	124,913	-	-	**124,913**	5,286	-	223,000	207,600	**560,799**	77	41
RYAN MESSER Chief Operating Officer											
2007	205,251	-	-	**205,251**	-		291,000	267,890	**764,141**	73	38
2006	106,325	-	-	**106,325**	3,998	-	153,870	143,244	**407,437**	73	38
TOTAL											
2007	**687,913**	-	-	**687,913**	**33,981**	-	1,030,000	948,980	**2,70,0874**		
2006	358,709	-	-	**358,709**	**14,239**	-	**530,740**	**494,088**	**1,397,766**		

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

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

Directors' Report

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION - UNAUDITED

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

FAIR VALUE OF OPTIONS – FACTORS AND ASSUMPTIONS - AUDITED

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

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

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

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

As at 20 April 2007, 2,618,000 options vested and are exercisable. As at the date this report, 500,000 have been exercised. The options in respect of Tranche 2 and 3, if vested, are exercisable until 30 June 2009, upon the satisfaction of those performance hurdles as set out on page 29.

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

FAIR VALUE OF SHARES – FACTORS AND ASSUMPTIONS - AUDITED

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

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

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

Directors' Report

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – AUDITED

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

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

[1] The entitlement to options arose on 31 July 2006. The outstanding options that may vest will be granted in two tranches until 30 June 2009 expiry date with an exercise price of $0.20 and a fair value of $0.1784 per option. Options vest upon performance hurdles being attained. Details of the performance hurdles are set out on page 29 of the Remuneration Report.

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

EXERCISE OF OPTIONS GRANTED AS COMPENSATION – AUDITED

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

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

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

Directors' Report

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

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

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

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

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

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

ANALYSIS OF MOVEMENTS ON OPTIONS – UNAUDITED

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

	Year	Entitlement to Options granted in year $ [2]	Exercised in Year $	Forfeited in Year $	Total Option Value in Year $
Executive Directors					
Justin Pettett	2007	-	97,500	-	-
	2006	892,000	-	-	892,000
Ryan Messer	2007	-	-	-	1,092,320
	2006	615,480	-	-	615,480
Non–Executive Directors					
John Dickinson	2007	-	-	-	546,160
	2006	615,480	-	-	615,480
Ananda Kathiravelu[1]	2007	-	-	-	-
	2006	-	-	-	
Philip Judge	2007	-	-	-	-
	2006	-	-	-	-

Directors' Report

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

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

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

SUMMARY OF KEY CONTRACTS TERMS – AUDITED

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

Contract Details	Justin Pettett	Ryan Messer
Duration of contract	Three Years (commencing from 3 March 2006). The term of the Executive Employment Agreement may be extended for a further three years.	Three Years (commencing from 26 June 2006). The term of the Executive Employment Agreement may be extended for a further three years.
Termination notice period	**Termination with reason:** Termination without notice: If the executive is convicted of a major criminal offence that brings Pryme into lasting disrepute. Termination with notice: One month's notice if the executive commits any serious or persistent breach of any of the provisions the relevant Executive Employment Agreement or the executive commits or is found guilty of gross misconduct. Three months' notice if the executive becomes unable to perform his duties due to illness for a prolonged period of time. Voluntary termination: This requires three months' notice by the executive to Pryme. **Termination without reason at the sole discretion of the Company:** Three month's notice.	**Termination with reason:** Termination without notice: If the executive is convicted of a major criminal offence that brings Pryme into lasting disrepute. Termination with notice: One month's notice if the executive commits any serious or persistent breach of any of the provisions the relevant Executive Employment Agreement or the executive commits or is found guilty of gross misconduct. Three months' notice if the executive becomes unable to perform his duties due to illness for a prolonged period of time. Voluntary termination: This requires three months' notice by the executive to Pryme.
Termination payments	Where notice is required to be given prior to termination, the Company may at its sole discretion dispense with the notice period and pay twelve months salary. In case of termination by the Company without reason, payment of nine months salary after the expiry of the three months notice or in the absence of the three months notice, twelve months salary. Outstanding annual leave, plus six months salary.	Where notice is required to be given prior to termination, the Company may at its sole discretion dispense with the notice period and pay twelve months salary. Outstanding annual leave.

Directors' Report

17. Corporate Governance

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

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

Justin Pettett
Managing Director
Brisbane, Queensland
28 February 2007

Auditor's Independence Declaration

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

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

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

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

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

MOORE STEPHENS

M J McDonald
Partner

Date: 27 February 2008.

Brisbane, Queensland.

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Financials

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

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

The accompanying notes form part of these financial statements.

Financials

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

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

The accompanying notes form part of these financial statements.

Financials

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

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

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

The accompanying notes form part of these financial statements.

Financials

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

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

The accompanying notes form part of these financial statements.

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Note 1 Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

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

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

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

Reporting Basis and Conventions

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

Accounting Policies

(a) Principles of Consolidation

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

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

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

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

(b) Income Tax

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

(c) Property, Plant and Equipment

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

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

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

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

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

Class of Fixed Asset	Depreciation Rate
Office equipment	25%

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

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

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

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

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

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

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

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

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

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

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

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

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

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

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

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

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

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

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

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

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

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

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

Exchange differences arising on translation of foreign operations are transferred directly to the groups foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

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

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

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

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

(l) Revenue
The group uses the sales method to account for sales of crude oil and natural gas revenues. Under this method, revenues are recognized based on actual volumes of oil and gas sold to purchasers. The volumes sold may differ from the volumes to which the group is entitled based on interests in the revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

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

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

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

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

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

Critical accounting estimates and judgments

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

Key Estimates — Impairment

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

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

Key Judgments — Provision for impairment of Receivables
No key judgements were made during the year.

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Note 2 Revenue

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

Note 3 Loss for the Year

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

Note 4 Income Tax Expense

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

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Note 5 Key Management Personnel Compensation

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

Key Management Person	**Position**
Executive Directors	
Justin Pettett	Managing Director and Chief Executive Officer since 1 December 2005
Ryan Messer	Chief Operations Officer since 1 December 2005
Non Executive Directors	
John Dickinson	Director since 1 December 2005; Former Chairman and appointed Vice-Chairman 29 January 2008
Ananda Kathiravelu	Director since 1 December 2005
Philip Judge	Appointed Director on 25 September 2005; resigned on 29 January 2008
George Lloyd	Appointed as Director and Chairman on 29 January 2008

(b) **Compensation Practices**

The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The Board has policies that are established to review the remuneration policies and practices of Pryme to ensure that it remunerates fairly and responsibly. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated directors and employees. The remuneration structures reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. There are up to three categories of remuneration employed to reward directors:

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

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

(c) **Key Management Personnel Compensation**

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

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

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

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

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PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
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2006	Short-term benefits				Post Employment Benefits
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation
	$	$	$	$	$
Key Management Person					
Justin Pettett	124,913	-	-	-	5,286
Ryan Messer	106,325	-	-	-	3,998
John Dickinson	78,539	-	-	-	2,492
Ananda Kathiravelu	48,932	-	-	-	2,453
Philip Judge	-	-	-	-	-
	358,709	-	-	-	14,229

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

(d) **Compensation Options**
Options Granted as Compensation

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

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

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

(e) **Shares Issued on Exercise of Compensation Options**
During the year under review 500,000 shares were issued as a result of exercise of 500,000 options granted as compensation in prior period.

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

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

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

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

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

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

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

(g) **Shareholdings**

Number of ordinary shares held by Key Management Personnel

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

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

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

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(h) **Share based payments**

Directors' Incentive Option Plan:

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

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

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

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

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

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

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

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

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

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

During the financial year 500,000 options were exercised.

Directors' Share Incentive Plan:

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

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

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

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

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

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

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PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
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The number and weighted average exercise prices of share options is as follows:

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

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

During the financial year, no rights vested.

Note 6 Auditors' Remuneration

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

Note 7 Earnings per Share

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

Note 8 Cash and Cash Equivalents

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

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

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Reconciliation of cash				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:				
Cash and cash equivalents	1,854,713	4,784,829	1,746,107	4,316,445
	1,854,713	4,784,829	1,746,107	4,316,445

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
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Note 9 Trade and Other Receivables

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

Note 10 Investments Accounted for Using the Equity Method

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

Interests are held in the following associated unincorporated entities

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

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

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

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Note 11 Controlled Entities

(a) **Controlled Entities Consolidated**

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

* Percentage of voting power is in proportion to ownership

(b) **Acquisition of Controlled Entities**

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

Note 12 Property, Plant and Equipment

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

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

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

Note 13 Intangible Assets

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

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Note 14 Working Interest

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

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

Note 15 Trade and Other Payables

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

Note 16 Issued Capital

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

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

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

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

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

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(b) **Options**

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

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

Note 17 Reserves

(a) **Foreign Currency Translation Reserve**
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

(b) **Option Reserve**
The option reserve records items recognised as expenses on valuation of directors share options under the Directors Incentive Option Plan.

Note 18 Capital and Leasing Commitments

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

Note 19 Contingent Liabilities and Contingent Assets

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

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Note 20 Segment Reporting

Primary Reporting — Geographical Segments

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

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

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

Note 21 Cash Flow Information

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

(b) **Credit Standby Arrangements with Banks**
There are no credit or standby arrangements with financiers as at 31 December 2007 (2006: nil)

Note 22 Events After the Balance Sheet Date

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

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

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

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

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

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Note 23 Related Party Transactions

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

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

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

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

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

Note 24 Financial Instruments

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

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

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

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

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

Foreign currency risk
The group is exposed to fluctuations in foreign currencies arising from the loans advanced by the Australian based parent entity to its United States based subsidiaries. Foreign currency gains/losses are recorded by the subsidiaries and eliminated on consolidation via the foreign currency translation reserve.

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

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

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

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

Financials

PRYME OIL AND GAS LIMITED ABN: 75 117 387 354 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(b) **Financial Instruments**

(i) **Interest Rate Risk**

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

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

(ii) **Net Fair Values**

The net fair values of:

— Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present value.
— Other assets and other liabilities approximate their carrying value.

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

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

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

Note 25 Company Details

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

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

Financials

DIRECTORS' DECLARATION

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

(a) the Financial Statements and Notes as set out on pages 38 to 58 are in accordance with the Corporations Act 2001, including:

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

ii. giving a true and fair view of Pryme's financial position as at 31 December 2007 and of their performance as represented by the results of their operations and their cash flows for the year ended on that date; and

(b) the remuneration disclosures that are included on pages 27 to 35 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

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

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 31 December 2007.

Signed in accordance with a Resolution of the Directors:

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

Audit Report

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

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

Report on the Financial Report

We have audited the accompanying financial report of Pryme Oil and Gas Limited (the company) and Pryme Oil and Gas Limited & Controlled Entities (the consolidated entity), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: "Presentation of Financial Statements", that compliance with the Australian equivalents to International Financial Reporting Standards (AIFRSs) ensures that the financial report, comprising the financial statements and notes, complies with AIFRSs.

Auditor's Responsibility

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

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

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

Independence

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

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Audit Report

MOORE STEPHENS

Auditor's Opinion

In our opinion:

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

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and

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

MOORE STEPHENS

M. J McDonald
Partner

Brisbane, 29 February. 2008

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Shareholder Information
AS AT 10 MARCH 2008

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:

(a) Fully paid Ordinary Shares

Name	Number	%
BPI Energy Pty Ltd	15,309,827	14.13
JR Energy Pty Ltd	14,352,673	13.24

(b) $0.40 Options (Quoted)

Name	Number	%
ANZ Nominees Ltd <SL Cash Income 4SF A/C>	4,187,854	10.09

2. Number of security holders and securities on issue

Pryme has issued the following securities:

(a) 108,378,029 fully paid ordinary shares held by 1,453 shareholders;

(b) 41,487,374 $0.40 options held by 530 option holders;

(c) 500,000 unquoted $0.40 options held by one option holder; and

(d) 5,868,000 unquoted $0.20 options held by 10 option holders.

3 Voting rights

Ordinary shares

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

Options

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

4. Distribution of security holders

(a) Quoted securities

Category	Fully paid Ordinary shares (Quoted)			$0.40 Options (Quoted)		
	Holders	Shares	%	Holders	Options	%
1 - 1,000	65	48,175	0.04	39	20,979	0.05
1,001 - 5,000	309	950887	0.88	113	344,964	0.83
5,001 - 10,000	335	2,929,940	2.70	81	699,298	1.69
10,001 - 100,000	634	22,261,234	20.54	215	8,649,556	20.85
100,001 and over	110	82,188,793	75.84	82	31,772,577	76.58
Total	**1,453**	**108,379,029**	**100**	**530**	**41,487,374**	**100**

Shareholder Information
AS AT 10 MARCH 2008

(b) Unquoted securities

Category	$ 0.20 Options (unquoted)			$0.40 Options (unquoted)		
	Holders	Shares	%	Holders	Options	%
1 - 1,000	-	-	-	-	-	-
1,001 - 5,000	-	-	-	-	-	-
5,001 - 10,000	-	-	-	-	-	-
10,001 - 100,000	-	-	-	-	-	-
100,001 and over	10	5,686,000	100	1	500,000	100
Total	**10**	**5,686,000**	**100**	**0**	**500,000**	**100**

5. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 174. 2,040 shares comprise a marketable parcel at the Pryme closing share price of $0.245.

6. Unquoted equity securities

(a) $0.20 options

5,868,000 unquoted $0.20 options have been issued to 10 option holders and remain unexercised. Details of holders of 20% or more of the $0.20 options are as follows:

Name	Number	%
Armada Capital Ltd	3,500,000	61.55

(b) $0.40 options

500,000 unquoted $0.40 options have been issued to one option holder and remain unexercised. Details of holders of 20% or more of the $0.40 options are as follows:

Fund Name	Number	%
Jojeto Pty Ltd <Lloyd Super Account>	500,000	100

7. Details regarding escrow

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

8. On market buy-back

There is no current on market buy-back.

9. Statement regarding use of cash and assets

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

Shareholder Information
AS AT 10 MARCH 2008

10. Twenty largest shareholders of quoted equity securities

(a) Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

	Name	No. of shares	%
1	BPI Energy Pty Ltd	15,309,827	14.13
2	JR Energy Pty Ltd	14,352,673	13.24
3	Armada Capital Ltd	4,687,500	4.32
4	Anglo Energy Company Inc	4,437,613	4.10
5	ANZ Nominees Ltd	4,353,318	4.02
6	Dreampt Pty Limited	2,000,000	1.85
7	Craig Sceroler <Sceroler Properties A/C>	1,800,000	1.66
8	Pettett Pty Limited <Pettett Family A/C>	1,700,000	1.57
9	John Dickinson	1,700,000	1.57
10	Sourcerock Investments LLC	1,700,000	1.57
11	James Stewart	1,650,000	1.52
12	Geoffrey Alan Maynard & Alison Maynard	1,092,952	1.00
13	Big Pine Petroleum Inc	881,000	0.81
14	Merrill Lynch (Australia) Nominees Pty Ltd	862,245	0.80
15	Charles Raymond Turk Ellis & Susan Margaret Cornwell <The Turk Ellis Pty Ltd Super Fund A/C>	845,000	0.78
16	John Fox	811,050	0.75
17	Equities and Securities Pty Limited <Number 1 A/C>	750,000	0.69
18	Cinque Terra Pty Ltd	730,000	0.67
19	Peter Daniel Adams	700,000	0.64
20	Jojeto Pty Ltd <Lloyd Super Fund A/C>	700,000	0.64
	Total	**61,063,178**	**56.34**

Shareholder Information
AS AT 10 MARCH 2008

(b) $0.40 options

Details of the 20 largest option holders by registered holding are:

	Name	No. of options	%
1	ANZ Nominees Ltd < SL Cash Income 4SF A/C>	4,187,854	10.09
2	Dreampt Pty Limited	1,750,000	4.22
3	Tamara Chick	1,610,000	3.88
4	Anglo Energy Company Inc	1,479,205	3.57
5	Armada Capital Ltd	1,150,042	2.77
6	Global Flow Marketing Group Ltd	1,100,000	2.65
7	John Charles Vassallo & Janelle Kerrie Vassallo <Vassallo Family S/F A/C>	883,334	2.13
8	Neville John Matthews <Matthews NJ Super Fund A/C>	780,773	1.88
9	Yokine Capital Pty Ltd	650,000	1.57
10	Michelle Barlin & Emilio Barlin	623,519	1.50
11	Back Paddock Investments Pty Ltd	614,584	1.48
12	Warren Daly and Karen Daly <Rock Wallaby Super Fund A/C>	581,000	1.40
13	John Dickinson	566,667	1.36
14	Sourcerock Investments LLC	566,667	1.36
15	James Stewart	550,000	1.32
16	Dr Peter John Vince	500,000	1.20
17	Pettett Pty Limited <Pettett Family A/C>	500,000	1.20
18	Syd Matthews & Co Pty Ltd <Matthews Transport A/C>	498,607	1.20
19	Leah Re	484,254	1.17
20	Christeal Investments Pty Ltd	480,000	1.15
	Total	**19,556,507**	**47.13**

Notes

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Corporate Directory

Directors

Mr George Lloyd (Chairman) (effective 29 January 2008)
Mr John Dickinson (Vice-Chairman) (effective 29 January 2008)
Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Executive Director)
Mr Ananda Kathiravelu (Non-Executive Director)
Mr Philip Judge (Non-Executive Director) (up to 29 January 2008)

Company Secretaries

Mrs Janine Rolfe
Ms Swapna Keskar

Registered and Principal Office

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Australian Company Number

117 387 354

Australian Business Number

75 117 387 354

Auditors

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Share Registry

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Solicitors

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Lawyers & Consultants
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Stock Exchanges

Australian Securities Exchange Limited (ASX)
Code: PYM
Code: PYMO

International OTCQX
Code: POGLY

American Depository Receipts (ADR)

Code: POGLY

Depository for ADR

Bank of New York
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