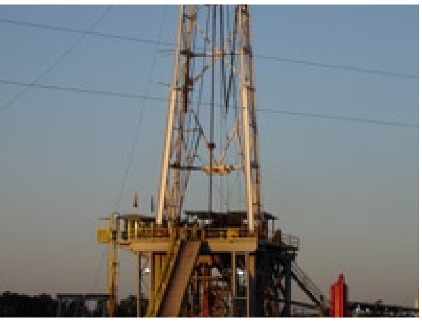
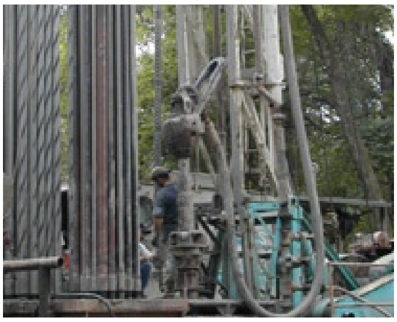
# pryme
## OIL AND GAS

JUNE 2008 **HALF YEARLY REPORT**

"The Raven Project is proving to be a strong contributor to Pryme's oil and gas production and reserves with results from the Patterson 16 No.1 well reinforcing our expectations."
**Ryan Messer**, Chief Operating Officer

*Patterson 16 No.1 well in the Raven Project*

"Three out of the four wells drilled to date in this project have resulted in discoveries and this well has the best reservoir characteristics yet identified. The results confirm the predictions made by our team through interpretation of the location's seismic attributes."
**Justin Pettett**, Managing Director

*Drilling continues in Turner Bayou*

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# Glossary

| | |
|---|---|
| Bbls/day | Barrels (of oil) per day |
| Bbls/month | Barrels (of oil) per month |
| Bcf | Billion Cubic Feet |
| Mcf | Thousand Cubic Feet |
| Mcfd | Thousand cubic feet per day |
| MMcfd | Million Cubic Feet of Natural Gas per Day |
| NRI | Net Revenue Interest |
| NYSE | New York Stock Exchange |
| Tcf | Trillion Cubic Feet |
| 3.28 feet | Equals 1 metre |

# Projects

## LaSalle Parish Project (8% - 21.5% Interest)

First half production remained relatively stable at over 1,400 barrels per month. However, as a result of increased oil prices, revenues from this project increased by 40% over the second half of 2007.

Pryme recently sold its interest in one of the 25 producing wells in this project, the Ray 2-6#1, for nearly four times its annual net cash flow. The Ray well was considered a non-core and mature asset due to its distance from Pryme's other LaSalle production and it being contained in a single well field in the second half of its productive life.

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

Pryme resumed drilling in the Turner Bayou project with one well in June and another in July. Both wells have been cased and shut-in as potential producers awaiting the construction of a gas gathering and sales line. The Company has now drilled four wells in this project; three of these have resulted in discoveries.

In June, the Trifolia 9 No. 1 well was drilled to 5,000 feet, to test a seismic anomaly in the Frio interval, and resulted in a gas discovery in the primary objective. Further analysis of drill information from this prospect indicates that there may be a 15 to 20 foot structurally higher gas-bearing location in the same reservoir. An additional well will need to be drilled to test this theory.

Since the end of the half year, the Indigo Minerals 29 No. 1 well, also targeting the Frio interval, was drilled. The 4,600 feet deep well resulted in a gas discovery in the Frio and returned the most encouraging sand thickness and reservoir quality results yet encountered in the Turner Bayou project.

Pryme and its partners in Turner Bayou have significantly increased their lease position in Turner Bayou during 2008 and now have over 9,500 net mineral acres leased.


*Drilling of Trifola 9 No. 1 well in Turner Bayou*

The evaluation of deeper anomalies in the area of the 3D seismic survey has resulted in the identification of a number of prospects at depths between 8,100 feet to 18,000 feet. The higher priority of these are Eocene, Lower Cretaceous and Austin Chalk prospects. Based on nearby and on-trend producing wells, these targets, if productive, have a multi-million barrel of oil equivalent reserve potential.

Pryme and its partners are in discussion with several companies which specialize in exploring deep prospects with a view to forming a joint venture. Pryme's strategy is to farm out a large portion of the deeper targets for an up-front cash payment and a free carried interest through to completion thus reducing our risk, recovering part of our investment to date and sharing in the upside from success through a carried working interest and/or a direct working interest.

## Raven Project (40% Interest / 30% NRI)

Production from the Grable 15 No. 1 well has remained relatively steady at above 840 Mcf per day of gas and 20 barrels per day of condensate. The stable production rate is indicative of a reservoir with a large aerial extent and good porosity.

# Projects (cont.)


*George Lloyd (Chairman) and Ryan Messer (COO) inspect Pryme's latest discovery in the Raven Project - Patterson 16 No.1*

This well currently produces from both the Price and the C sands. However, there are two other zones that may also be productive; these zones remain behind pipe for future testing. Pryme is now receiving regular income, currently exceeding US$80,000 per month, from the Grable oil and gas production. This well alone has increased Pryme's monthly income by 50%, exceeding management's initial forecast, and illustrates the potentially significant contribution to growth from each successful Raven well.

The fracture stimulation in both the Price Sands and the C Sands formations of the Patterson 16 No.1 well in the Raven project was completed by early August. Most of the fracture treatment fluid has been recovered from the formation and production from both zones is being comingled to assist in the recovery of the balance of the fluid and the production of natural gas and condensate from both formations. The well is currently producing around 900 Mcf and 13 barrels of condensate per day.

The next well to be drilled in the Raven project is scheduled for the fourth quarter of the year. The route of the gas gathering line for this well is currently being investigated. Resolution of the route will determine the timing for drilling the well.

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

Since drilling the first two wells in this project, a decision has been made to not attempt remediation of the second well but to drill a third well in a better location. The drilling of this offset well is planned to commence during the third quarter and will test the potential for a number of stacked oil-bearing reservoirs. The location was determined from well log information gained from drilling of the first two wells and places the new well at the optimum structural location. If successful, this project could make a significant contribution to Pryme's growing reserves base.

## Up-Dip Tuscaloosa Project (100% Interest / JV with Amelia)

Pryme has entered into an agreement to farm out its interests in the Up-Dip Tuscaloosa Project (which includes the Atocha Prospect) to newly formed oil and gas exploration company, Promesa Limited. The terms of the farm out include reimbursement of all of Pryme's project-related costs to date as well as the retention by Pryme of carried interests in the first well to be drilled in each prospect and overriding royalty interests in production from the entire project area.

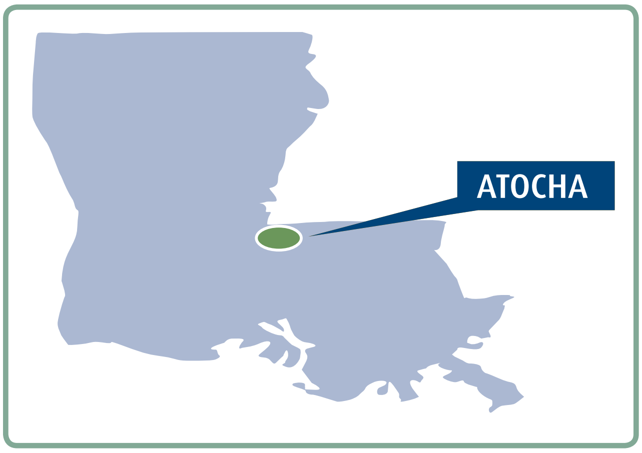
The project area is defined as an Area of Mutual Interest (AMI) of approximately 1,800 square kilometres (700 square miles) in central Louisiana. The AMI includes 6,400 acres in East Baton Rouge and East Feliciana Parishes over which Pryme holds the mineral rights and which are on trend with the prolific Tuscaloosa trend. The Tuscaloosa Trend was discovered in 1975 by Chevron. It has produced over 2.8 trillion cubic feet (TCF) of natural gas and 120 million barrels of condensate over the past 32 years.

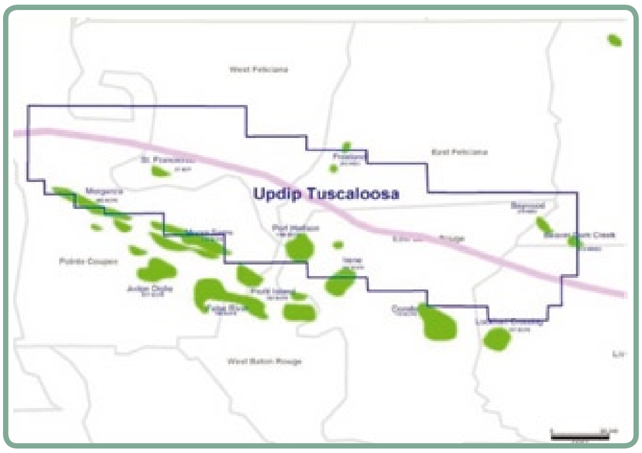
Exploration will commence in the Atocha Prospect which is the most advanced of the prospects within the AMI. Atocha is located five miles north of BP's Port Hudson Field which is the best producing field in the trend. The

# Projects (cont.)

Port Hudson Field is a salt-cored anticline from which approximately 800 billion cubic feet (BCF) of gas and 90 million barrels of condensate (1.3 trillion cubic feet equivalent (TCFE) of natural gas) have been produced to date. The primary targets of the Atocha prospect are over 17,000 feet deep and are analogous to producing formations in Port Hudson Field.

**The AMI is shown in the following location map**




The terms of the farmout include:

- cash reimbursement of Pryme's costs of the project to date (estimated at A$2.0 million),
- a 25% carried working interest through to production in the first two wells in the Atocha Prospect and the first well in each other prospect,
- an overriding royalty interest ranging up to 5% of production from Atocha and, subject to lease terms, the entire AMI, and
- a commitment to fund further leasing and development activities throughout the AMI.

The first exploration well in Atocha will be the re-entry of an existing well which was drilled by a major oil company in 1980 when the Tuscaloosa trend was relatively undeveloped and its production characteristics were unknown. Petrophysical analysis indicates that the well to be re-entered potentially contains over 100 feet of natural gas bearing sands. This section will be tested and, if completed as a producing well, will deliver gas into the nearby sales pipeline network.

Work on the re-entry is expected to begin in the next 60-90 days subject to well and casing availability and also to Promesa finalising a capital raising. A successful discovery in Atocha has the ability to significantly increase revenues and greatly increase the valuation of Pryme.

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

Kestrel is a Hackberry Sands project located in Calcasieu Parish Louisiana and has been generated by processing 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 bearing sands. If successful, two wells should effectively drain this objective.

## 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.

Reprocessing and re-interpretation of seismic data continues in this area providing a potential pipeline of prospects for Pryme to explore as existing projects are executed and brought online.

# Directors' Report

In accordance with a resolution of the Directors, the Directors present their Report together with the Financial Report of Pryme Oil and Gas Limited (Pryme) and its wholly owned subsidiary Pryme Oil and Gas Inc and its subsidiaries (together referred to as the Consolidated Entity) for the half-year ended 30 June 2008 (Period) and the Independent Auditor's Review Report thereon:

## Directors

The Directors of Pryme at any time during or since the end of the half year ended 30 June 2008 are:

**Executive Directors**

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

**Non-Executive Directors**

Mr George Lloyd (Chairman) (appointed 29 January 2008)
Mr Ananda Kathiravelu

At the General Meeting held on 5 March 2008, Mr George Lloyd was re-elected to the Board in accordance with clause 13.4 of Pryme's Constitution.

At the Annual General Meeting held on 23 April 2008, Mr John Dickinson and Mr Ananda Kathiravelu were re-elected to the Board in accordance with clause 13.4 of Pryme's Constitution.

Mr John Dickinson retired from the Board on 1 June 2008.

## Review of Operations

The principal activities of Pryme during the Period 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 Period. In the first half of 2008, $3,955,886 was invested in exploration, evaluation and development activities (2007: $4,845,000).

During the year, the Group's corporate structure was restructured, in that Pryme Energy LLC became a subsidiary of Pryme subsidiary, Pryme Oil and Gas Inc. In addition, three new US incorporated entities were registered: Trident Minerals, LLC, Pryme Royalty Holdings, LLC and Pryme Mineral Holdings LLC. All are subsidiaries of Pryme Oil and Gas Inc.

## Financial Results

Revenue from operations of the Consolidated Entity after royalties for the half year ended 30 June 2008 is $1,489,441 (US Operations $1,299,576) (2007: $797,542 (US Operations: $715,456)).

Revenue from production during the half year has increased considerably over that for the corresponding period in 2007. In addition, the revenue from production for the half year was only 12% less than the production revenue for the full 2007 year.

The increase in revenue is mainly due to two factors:

- The increase in oil and gas prices
- The Grable well (Raven project) commencing production.

# Directors' Report (cont.)

Natural gas prices increased by approximately 30% over the period, from US$6.88 per thousand cubic feet (Mcf) in January 2008 to US$8.79/Mcf in June 2008. Oil prices have increased by approximately 40% over the period, rising from US$94.60 to US$135.55 per barrel. Prices of both natural gas and oil have declined since June and were at US$7.15 and US$109.73 respectively at the end of August 2008.

The Raven project contributed US$269,733 (A$288,825) to revenue for the half year. This was primarily due to the Grable well which commenced natural gas and condensate sales in April 2008. It should be noted that the Patterson well (also in the Raven project), which commenced sales of natural gas and condensate in August 2008, is currently producing at similar levels to the Grable and is also expected to make a significant contribution to revenue for the second half of the year. The Raven project has the potential to be a strong contributor to Pryme's oil and gas production and reserves and profitability.

The LaSalle Parish project contributed US$943,939 (A$1,010,751) to revenue for the half year. Oil production from the project was at similar levels to the prior corresponding period. However, revenue was significantly increased as a result of higher oil prices.

During the second half of the year additional wells are expected to be drilled in the Raven project, subject to the settling of pipeline right of way and surface issues, and in the Saline Point project. It is also expected that the Atocha well in the Up-dip Tuscaloosa Project, which was recently farmed out to Promesa Limited, will be re-entered. At the Turner Bayou project the Company currently has three drilled and cased well bores awaiting completion into a sales pipeline the planning of which is in its early stages. At least two additional Turner Bayou wells are planned to be drilled during the second half of the year.

The Consolidated Entity is enjoying strong income from production from the LaSalle Parish and Raven projects. However, the final result for the half-year ending 30 June 2008 is a loss of $1,044,851 (2007 A$1,665,669), which is a reflection of the Company's stage of development and particularly the strong emphasis on lease acquisition and exploration. A significant factor in the loss for the half-year ending 30 June 2008 has been the expensing of the Director Incentive Option Plan (DIOP) and the Director Share Incentive Plan (DSIP) in accordance with Australian Accounting Standard 2 - Share-Based Payment (AASB 2). AASB 2 requires securities (rights and options in the case of Pryme) to be expensed from the date of grant over the performance period of the security despite the fact that attaching performance hurdles may not have been achieved. Due to the high expense associated with these incentive plans the Directors believed that it was in the best interests of the Company and its shareholders that they relinquish their rights to options under these plans and the options were cancelled during the half year.

The functional currency for the US operations of the Group is US Dollars. The presentation currency for the Group's accounts is Australian Dollars. The translation of US dollar amounts into the Australian currency has been dealt with as follows:

- assets and liabilities were translated at the spot rate at 30 June 2008 of A$0.9694 to US$1.00; and
- income and expenses were translated at the average exchange rate for the half-year to 30 June 2008 of A$0.9334 to US$1.00.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. Since the end of the half year the Australian Dollar has weakened against the US dollar and at 11 September 2008 the exchange rate was A$0.7962 to US$1.00

Decreases in the Australian Dollar/US Dollar exchange rate increase the Australian Dollar book values of assets and liabilities with an offsetting impact on the foreign currency translation reserve. Similarly, increases in the exchange rate decrease the Australian Dollar book values of assets and liabilities.

# Directors' Report (cont.)

## Production

Cumulative net production to Pryme for the current period was 8,870 barrels of oil and 24,600Mcf of natural gas from the LaSalle Parish Project and the Raven Project (2007: 9,493 barrels of oil from the La Salle Parish Project only).

## Exploration and Lease Acquisition

Details of Pryme's exploration activities and leases acquired are specified in the "Projects" section on pages 4 to 6 of the Half-Yearly Report.

## Events Subsequent to Reporting Date

1. On 11 June 2008, the Company and its joint venture partners entered into an agreement to sell one well from the Catahoula Lake West field. The sale closed on 1 July 2008 and the Company received net proceeds of $46,000 for their interest in the sale. No gain or loss was recorded on the sale.
2. On 2 July 2008, 2,575,000 shares were issued upon the conversion of options with an exercise price of $0.20 expiring on 30 June 2008. 1,175,000 options lapsed.
3. On 3 July 2008, 1,100 shares were issued upon the conversion of PYMO options with an exercise price of $0.40 expiring on 30 June 2008. 41,486,274 PYMO options lapsed.
4. On 21 July 2008, Pryme announced that the fourth exploration well (Indigo Minerals 29 No. 1) in the Turner Bayou 3D seismic project reached a total depth of 4,600 feet over the weekend of 19-20 July 2008, resulting in the discovery of natural gas in the Frio sand interval.
5. On 29 July 2008, Pryme announced that the fracture stimulation in the Cotton Valley Price formation of the Patterson 16 No. 1 in the Raven project was completed over the weekend of 29-27 July 2008. The fourth well to be drilled in the Raven project is scheduled for the fourth quarter of the year.
6. On 15 August 2008, Pryme announced that the third well (Patterson 16 No. 1) in the Raven project had been connected to the gas sales pipeline and natural gas and condensate sales have commenced.
7. On 4 June 2008, the Company announced that it had entered into an agreement with a newly formed oil and gas exploration company, Promesa Limited (Promesa) to farm out its interests in the Up-Dip Tuscaloosa project classified in the balance sheet under the heading 'Working Interests', amounting to $1,742,043.31 (Refer Note 8, Working Interest). As previously disclosed, the arrangements between Pryme and Promesa are a related party transaction due to Mr Kathiravelu's associations with both entities.

   Promesa's obligations under the agreement include:

   - cash reimbursement of the Company's costs of the project to date being $1,742,043.31 as at the balance sheet date;
   - a 25% carried working interest through the production in the first two wells in the Atocha Prospect and the first well in each other prospect;
   - an overriding royalty interest ranging up to 5% of production from Atocha and, subject to lease terms, the entire AMI; and

# Directors' Report (cont.)

- a commitment by Promesa to fund further leasing and development activities throughout the AMI.

Prior to the farm-out being complete, it is likely that Pryme will incur an expense of approximately $1,500,000 when it confirms an order for steel casing for the Atocha well. Due to industry conditions in the United States it is becoming increasingly difficult to secure casing and this would be a valuable asset to Pryme in its own right. This expense is reimbursable in its entirety by Promesa as described above.

The agreement, which was renewed on 10 September 2008, is subject to several conditions precedent, all of which have not yet been met as at the date of this Report.

## Lead Auditor's Independence Declaration

The lead auditor's independence declaration has been provided by Pryme's auditor, Moore Stephens. A copy of this declaration is attached to, and forms part of, the Half-Year Financial Report for the six months ended 30 June 2008.

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

Justin Pettett
Managing Director
Brisbane
12 September 2008

# 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 half-year ended 30 June 2008 there have been:

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

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

Moore Stephens

**MOORE STEPHENS**

MJ McDonald
Director

Date: 8 September 2008

Brisbane, Queensland.

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# Financials

## CONSOLIDATED INCOME STATEMENT
## FOR THE HALF YEAR TO 30 JUNE 2008

| | Note | Consolidated Entity 30 June 2008 $ | 30 June 2007 $ |
|---|---|---|---|
| Revenue | 2 | 1,489,441 | 797,542 |
| Audit and Accounting fees | | (131,914) | (152,083) |
| Depletion and depreciation expense | | (290,193) | (270,271) |
| Directors remuneration | 3 | (457,577) | (313,735) |
| Directors remuneration – DIOP & DSIP | 3 | (893,597) | (1,024,828) |
| Employee benefits expenses | | (36,678) | (43,574) |
| Legal and secretarial fees | | (28,552) | (43,439) |
| Postage, printing and stationery | | (4,149) | (24,317) |
| Production Costs | | (270,910) | (198,162) |
| Professional Consulting Fees | | (107,601) | (134,727) |
| Share registry and listing fees | | (8,629) | (17,885) |
| Travel expenses | | (131,139) | (147,306) |
| Other expenses | | (173,353) | (71,763) |
| Share of net loss of associate | | - | (21,121) |
| Loss before income tax | | (1,044,851) | (1,665,669) |
| Income tax expense | | - | - |
| Loss attributable to members of the parent entity | | (1,044,851) | (1,665,669) |
| Basic earnings per share - cents per share | | (0.6) cents | (2.4) cents |
| Diluted earnings per share - cents per share | | (0.5) cents | (1.6) cents |

The accompanying notes form part of these financial statements.

# Financials

## CONSOLIDATED BALANCE SHEET
## AS AT 30 JUNE 2008

| | Note | Consolidated Entity 30 June 2008 $ | Consolidated Entity 31 December 2007 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | 5,811,872 | 1,854,713 |
| Trade and other receivables | 6 | 425,139 | 314,479 |
| Other current assets | | 36,488 | 35,900 |
| **TOTAL CURRENT ASSETS** | | 6,273,499 | 2,205,092 |
| **NON-CURRENT ASSETS** | | | |
| Investment accounted for using the equity method | 7 | 7,071,176 | 6,308,229 |
| Property, plant and equipment | | 17,939 | 5,826 |
| Work Interest | 8 | 10,944,315 | 11,262,436 |
| **TOTAL NON-CURRENT ASSETS** | | 18,033,430 | 17,576,491 |
| **TOTAL ASSETS** | | 24,306,929 | 19,781,583 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | 667,301 | 1,115,634 |
| **TOTAL CURRENT LIABILITIES** | | 667,301 | 1,115,634 |
| **NON-CURRENT LIABILITIES** | | - | - |
| **TOTAL NON-CURRENT LIABILITIES** | | - | - |
| **TOTAL LIABILITIES** | | 667,301 | 1,115,634 |
| **NET ASSETS** | | 23,639,628 | 18,665,949 |
| **EQUITY** | | | |
| Issued capital | 9 | 27,950,382 | 21,508,685 |
| Reserves | | (3,212,909) | 2,566,850 |
| Accumulated losses | | (1,097,845) | (5,409,586) |
| **TOTAL EQUITY** | | 23,639,628 | 18,665,949 |

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The accompanying notes form part of these financial statements.

# Financials (cont.)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Issued Capital Ordinary | Accumulated Loss | Foreign Exchange Reserve | Option Reserve | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| ***Balance at 1.01.2007*** | | 14,952,733 | (2,047,615) | (610,655) | 2,702,666 | 14,997,129 |
| Shares issued during the period | | 3,030,000 | - | - | - | 3,030,000 |
| Share issue costs | | (208,922) | - | - | - | (208,922) |
| Options issued during the period | | - | - | - | 1,096,640 | 1,096,640 |
| Loss attributable to members | | - | (1,665,669) | - | - | (1,665,669) |
| Adjustments from translation of foreign controlled entities | | - | - | (915,360) | - | (915,360) |
| ***Balance at 30.06.2007*** | | **17,773,811** | **(3,713,284)** | **(1,526,015)** | **3,799,306** | **16,333,818** |
| | | | | | | |
| ***Balance at 1.01.2008*** | | 21,508,685 | (5,409,587) | (2,299,098) | 4,865,948 | 18,665,948 |
| Shares issued during the period | | 6,480,000 | - | - | - | 6,480,000 |
| Share issue costs | | (401,931) | - | - | - | (401,931) |
| Options issued during the period | | - | - | - | 1,606,179 | 1,606,179 |
| Options expired/relinquished – expensed in prior year | | 363,628 | - | - | - | - |
| Loss attributable to members | | - | (1,044,851) | - | - | (1,044,851) |
| Options expired/relinquished – expensed in current year | | - | 5,356,593 | - | (5,720,221) | - |
| Adjustments from translation of foreign controlled entities | | - | - | (1,665,717) | - | (1,665,717) |
| ***Balance at 30.06.2008*** | | **27,950,382** | **(1,097,845)** | **(3,964,815)** | **751,906** | **23,639,628** |

The accompanying notes form part of these financial statements.

# Financials (cont.)

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE HALF YEAR TO 30 JUNE 2008

| | Consolidated Entity | |
|---|---|---|
| | 30 June 2008 | 30 June 2007 |
| | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | 1,188,328 | 336,987 |
| Payments to suppliers and employees | (978,859) | (1,824,399) |
| Interest received | 189,865 | 82,086 |
| Net cash provided by (used in) operating activities | 399,334 | (1,405,326) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of work interest | 860,000 | - |
| Purchase of equity accounted investment | (1,345,157) | (2,619,550) |
| Purchase of property, plant and equipment | (13,413) | - |
| Payment for work interest | (2,610,729) | (1,151,960) |
| Net cash provided by (used in) investing activities | (3,109,299) | (3,771,510) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of shares & options (net of share issue cost) | 6,667,124 | 2,851,078 |
| Net cash provided by financing activities | 6,667,124 | 2,851,078 |
| Net increase (decrease) in cash held | 3,957,159 | (2,325,758) |
| Cash at beginning of period | 1,854,713 | 4,784,829 |
| Cash at end of period | 5,811,872 | 2,459,071 |

The accompanying notes form part of these financial statements.

# Financials (cont.)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR TO 30 JUNE 2008

### NOTE 1: BASIS OF PREPARATION

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2007 and any public announcements made by Pryme Oil and Gas Limited (Pryme) and its controlled entities (consolidated entity) during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those in the annual financial report for the year ended 31 December 2007.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

*Reporting Basis and Conventions*

The half-year 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.

| | Consolidated Entity | |
|---|---|---|
| | 30 June 2008 | 30 June 2007 |
| | $ | $ |
| **NOTE 2: PROFIT FROM ORDINARY ACTIVITIES** | | |
| The following revenue and expense items are relevant in explaining the financial performance for the interim period: | | |
| Oil and Gas revenue | 1,299,576 | 715,456 |
| Other income – interest | 189,865 | 82,086 |
| | 1,489,441 | 797,542 |

# Financials (cont.)

## NOTE 3: DIRECTORS' REMUNERATION

Directors' remuneration of $1,351,174 (2007: $1,338,563) comprises of $457,577 (2007: $313,735) which was paid in cash or cash equivalents to directors and an amount of $893,597 (2007: $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. Due to the large expense that the Company was incurring, on 28 February and 26 June 2008 respectively, the Directors who continued to participate in the DIOP and the DSIP relinquished their securities. As required under the accounting standards, the rights to shares and options relinquished are reversed against accumulated losses as shown in Statement to Changes in Equity. In the case of those securities which lapse upon the resignation of John Dickinson, the amount expensed up until the 1 June 2008 date of resignation is recognised in the Consolidated Income Statement. The amounts previously recognised in the option reserve are reversed against accumulated losses as shown in Statement to Changes in Equity.

Pryme's Remuneration and Nomination Committee will now consider the most appropriate performance based remuneration for the Company's executives, having specific regard to Company performance and shareholder wealth.

As approved by shareholders in the general meeting, on 6 March 2008, the Company issued George Lloyd 500,000 options as an acknowledgement of the skills and experience that Mr Lloyd brings to the Company as an incentive attaching to his directorship/chairmanship. These options have an exercise price of $0.40 and an expiry of 31 December 2009. While the options will not be quoted on the ASX, the Company will seek quotation from the ASX of any shares issued as a result of the exercise of these options.

## NOTE 4: DIVIDENDS

There were no ordinary dividends declared or paid during the period under review (2007: $Nil).

## NOTE 5: SEGMENT REPORTING

### Business Segment

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

### Geographic Segment

**30 June 2008**

| Geographic segment | AUS | USA | Elimination | Consolidated |
|---|---|---|---|---|
| Income | 396,793 | 1,299,576 | (206,928) | 1,489,441 |
| Depletion & depreciation | 1,300 | 288,893 | - | 290,193 |
| Segments results before tax | (551,329) | (2,786,311) | 2,292,789 | (1,044,851) |
| Income tax | - | - | - | - |
| Assets | 31,055,987 | 18,670,112 | (25,793,225) | 23,932,874 |
| Liabilities | 82,036 | 26,150,308 | (25,565,043) | 667,301 |

# Financials (cont.)

## NOTE 5: SEGMENT REPORTING (continued)

**30 June 2007**

| Geographic segment | AUS | USA | Elimination | Consolidated |
|---|---|---|---|---|
| Income | 334,891 | 715,456 | (252,805) | 797,542 |
| Depletion & depreciation | 2,052 | 268,219 | - | 270,271 |
| Segments results before tax | (624,082) | (2,299,339) | 1,257,752 | (1,665,669) |
| Income tax | - | - | - | - |
| Assets | 20,204,548 | 15,268,833 | (18,503,724) | 16,969,657 |
| Liabilities | 88,396 | 19,051,549 | (18,504,106) | 635,839 |

| | Consolidated Entity | |
|---|---|---|
| | 30 June 2008 | 31 December 2007 |
| | $ | $ |
| **NOTE 6: RECEIVABLES** | | |
| CURRENT | | |
| Trade receivables | 425,139 | 214,479 |
| Other | - | 100,000 |
| | 425,139 | 314,479 |
| **NOTE 7: INVESTMENTS ACCOUNTED USING EQUITY METHOD** | | |
| Opening balance at 1 January 2008 (2007: 1 Jan 2007) | 6,308,229 | 3,130,786 |
| New investments during the period | 1,345,157 | 3,526,707 |
| Share of associated entities loss | - | (18,724) |
| Foreign exchange fluctuations | (582,210) | (330,540) |
| Closing balance at 30 June 2008 (2007: 31 December 2007) | 7,071,176 | 6,308,229 |
| **NOTE 8: WORKING INTEREST** | | |
| Exploration expenditure capitalised | | |
| - exploration and evaluation and production phases | 12,092,569 | 12,177,390 |
| Accumulated depletion | (1,148,254) | (914,954) |
| | 10,944,315 | 11,262,436 |
| **NOTE 9: ISSUED CAPITAL** | | |
| Fully paid ordinary shares | 30,146,980 | 23,303,352 |
| Capital raising cost | (2,196,598) | (1,794,667) |
| | 27,950,382 | 21,508,685 |
| Number of ordinary shares on issue at the end of the half year: | 108,379,029 | 89,504,029 |

# Financials (cont.)

## NOTE 10: CONTINGENT LIABILITIES & COMMITMENTS

There has been no change in contingent liabilities since the last annual reporting date 31 December 2007, except for the following:

The Company may from time to time be involved with various litigation and claims that arise in the normal course of business. As of June 30 2008, no such matters were outstanding.

## NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE

1. On 11 June 2008, the Company and its joint venture partners entered into an agreement to sell one well from the Catahoula Lake West field. The sale closed on 1 July 2008 and the Company received net proceeds of $46,000 for their interest in the sale. No gain or loss was recorded on the sale.
2. On 2 July 2008, 2,575,000 shares were issued upon the conversion of options with an exercise price of $0.20 expiring on 30 June 2008. 1,175,000 options lapsed.
3. On 3 July 2008, 1,100 shares were issued upon the conversion of PYMO options with an exercise price of $0.40 expiring on 30 June 2008. 41,486,274 PYMO options lapsed.
4. On 21 July 2008, Pryme announced that the fourth exploration well (Indigo Minerals 29 No. 1) in the Turner Bayou 3D seismic project reached a total depth of 4,600 feet over the weekend of 19-20 July 2008, resulting in the discovery of natural gas in the Frio sand interval.
5. On 29 July 2008, Pryme announced that the fracture stimulation in the Cotton Valley Price formation of the Patterson 16 No. 1 in the Raven project was completed over the weekend of 29-27 July 2008. The fourth well to be drilled in the Raven project is scheduled for the fourth quarter of the year.
6. On 15 August 2008, Pryme announced that the third well (Patterson 16 No. 1) in the Raven project had been connected to the gas sales pipeline and natural gas and condensate sales have commenced.
7. On 4 June 2008, the Company announced that it had entered into an agreement with a newly formed oil and gas exploration company, Promesa Limited (Promesa) to farm out its interests in the Up-Dip Tuscaloosa project classified in the balance sheet under the heading 'Working Interests', amounting to $1,742,043.31 (Refer Note 8, Working Interest). As previously disclosed, the arrangements between Pryme and Promesa are a related party transaction due to Mr Kathiravelu's associations with both entities.

   Promesa's obligations under the agreement include:

   - cash reimbursement of the Company's costs of the project to date being $1,742,043.31 as at the balance sheet date;
   - a 25% carried working interest through the production in the first two wells in the Atocha Prospect and the first well in each other prospect;
   - an overriding royalty interest ranging up to 5% of production from Atocha and, subject to lease terms, the entire AMI; and
   - a commitment by Promesa to fund further leasing and development activities throughout the AMI.

Prior to the farm-out being complete, it is likely that Pryme will incur an expense of approximately $1,500,000 when it confirms an order for steel casing for the Atocha well. Due to industry conditions in the United States it is becoming increasingly difficult to secure casing and this would be a valuable asset to Pryme in its own right. This expense is reimbursable in its entirety by Promesa as described above.

The agreement, which was renewed on 10 September 2008, is subject to several conditions precedent, all of which have not yet been met as at the date of this Report.

# Financials (cont.)

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 12 to 19.

   a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*; and

   b. give a true and fair view of the consolidated entity's financial position as at 30 June 2008 and of its performance for the half year ended on that date.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Director ......................................................................
Justin Pettett

12 September 2008

# Auditor's Review Report

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

PRYME OIL AND GAS LIMITED ABN 75 117 387 354
AND CONTROLLED ENTITIES

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF
PRYME OIL AND GAS LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pryme Oil and Gas Limited and controlled entities, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and the cash flow statement for the half-year ended on that date, a summary of significant accounting policies, selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The company's and controlled entities' directors are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that it 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: "Review of an Interim Financial Report Performed by the Independent Auditor of the Entity", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the company's and controlled entities' financial position as at 30 June 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: "Interim Financial Reporting" and the *Corporations Regulations 2001*. As the auditor of Pryme Oil and Gas Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the financial report.

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

Independence

In conducting our review, 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 of Pryme Oil and Gas Limited and controlled entities on 8 September 2008, would be in the same terms if provided to the directors as at the date of this review report.

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MOORE STEPHENS

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pryme Oil and Gas Limited and controlled entities is not in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and controlled entities' financial position as at 30 June 2008 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standard AASB 134: "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory professional reporting requirements in Australia.

Moore Stephens

MOORE STEPHENS
Chartered Accountants

MJ McDonald
Director

Brisbane Qld

Date 12 September 2008.

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# Corporate Directory

## Directors
Mr George Lloyd (Chairman)
Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Executive Director)
Mr Ananda Kathiravelu (Non-Executive Director)

## Company Secretaries
Mrs Janine Rolfe
Ms Swapna Keskar

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## Solicitors
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## Stock Exchanges
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## Australian Company Number
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