pryme energy

Half Yearly Report
June 2014

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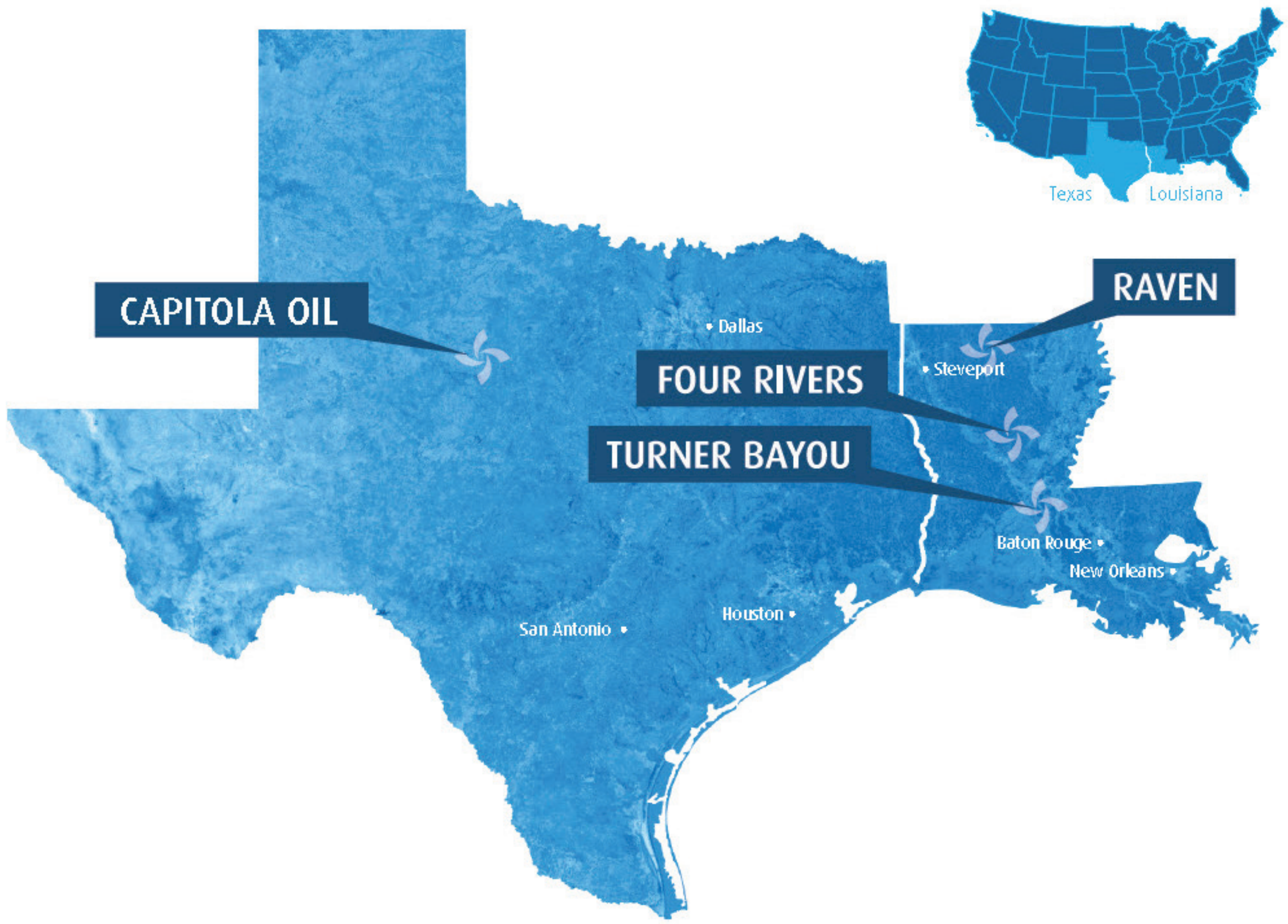
Pryme Project Location



Directors' Report

In accordance with a resolution of the directors, the directors present their Report together with the Financial Report of Pryme Energy Limited ("Pryme" or "the Company") and its subsidiaries (together referred to as the "Consolidated Entity" or the "Group") for the half year ended 30 June 2014 (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 2014 are:

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

Non-Executive Directors
Mr George Lloyd (Chairman)
Mr Gregory Short

At the Annual General Meeting held on 24 April 2014, Mr Ryan Messer was re-elected to the Board in accordance with clause 13.2 of Pryme's Constitution.

Review of Operations

The principal activities of Pryme during the period under review were evaluating, exploring and developing oil and gas prospects and producing oil and gas 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 2014, $1,118,181 was invested in exploration, evaluation and development activities (2013: $1,603,171). This investment was principally in acquiring an interest in the Capitola Project.

Production

For the half year ended 30 June 2014, cumulative net production for the Company comprised 6,796 barrels of oil and 18,253 Mcf of natural gas from the Turner Bayou, LaSalle Parish, Raven, Four Rivers projects (2013: 12,276 barrels of oil and 20,649Mcf of natural gas).

The main factors contributing to reduced oil production compared to the previous corresponding period were natural decline, mechanical problems impeding production from Turner Bayou and the attribution of only three months production to Turner Bayou reflecting an effective sale date of 1 April 2014 in the Turner Bayou sale agreement.

Financial Results

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

Revenue of the Consolidated Entity from production of oil and gas for the half year ended 30 June 2014 was $848,066 (2013: $1,337,388). The decrease reflects natural decline in production for Turner Bayou, LaSalle, Four Rivers and Raven. The average oil price received for the 6 months to June 2014 was US$102 per Bbl (2013: US$109 per Bbl) with total revenue from oil sales attributable to the following producing assets: Four Rivers 61%, Turner Bayou 24%, Raven 15%. The average gas price received for the 6 months to June 2014 was US$4.52 per Mcf (2013: US$3.14per Mcf).

For the half year ended 30 June 2014, the Company has recorded a loss from continuing operations of $521,076 (2013: $713,206). Total Comprehensive Income for the Company for the period was a loss of $1,280,220 (2013: $15,412,996 including an impairment loss of $16M in relation to the Turner Bayou project) including a loss of $252,669 (2013: gain of $2,131,710) arising on translation of foreign operations.

For the half year ended 30 June 2014, the Company has recorded negative cash flows from operations of $212,963 (2013: negative $63,126).

Exploration Activities

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

Lead Auditor's Independence Declaration

The lead auditor's independence declaration has been provided by Pryme's auditor, PricewaterhouseCoopers. A copy of this declaration is attached to, and forms part of, the half year report for the six months ended 30 June 2014.

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

Justin Pettett
Managing Director
Brisbane
4 September 2014

Projects

The Capitola Oil Project

"We are making great operational progress in the field leading up to the start of drilling in September. In addition, the level of activity by other explorers which surround our project acreage reinforces our confidence in the project's potential," said Justin Pettett, Pryme's Managing Director. "We have the funds to begin our drilling program and we are looking forward to building the value of the company for the benefit of shareholders as we move ahead."

In February 2014 Pryme entered into an agreement for the acquisition of the Capitola Oil Project located in an active region of the Eastern Shelf of the Permian Basin just north of the town of Sweetwater, Texas. Pryme will earn a 75% working interest in 9,333 acres (7,000 net acres) in all mineral rights from the surface through to the top of the Cline Shale and a 50% working interest (4,666 net acres) in the Cline Shale and all other mineral rights. The Capitola Oil Project acreage is contained within two contiguous lease blocks referred to as Sweetwater (approx. 7,000 acres) and Claytonville (approx. 2,333 acres) to the north of Sweetwater. Pryme is the operator of the project.

Capitola, which represents the culmination of about two years of project identification and assessment activities, has the potential to transform Pryme into a profitable oil producer and generate great value for shareholders. The project contains a number of shallow, "stacked" formations to depths of about 6,000 feet, with established production history from vertical wells. These overlie the Cline Shale formation which is the subject of an emerging resource play of national significance.

Pryme is fully funded to begin its Capitola drilling program and plans to begin drilling its first two wells in September; these wells will be drilled back-to-back. Pryme's strategy is initially to exploit the many opportunities to drill vertical wells through the stacked reservoirs within the project acreage and then to exploit the Cline Shale as major US exploration and production companies, which surround Pryme's acreage continue to demonstrate its value.

Our vision remains unchanged; it is to grow Pryme into a high quality independent US oil and gas company capable of delivering high returns to shareholders through the exploration and development of projects throughout the USA.

Site preparation on the Hopes-Boles PU #1 well

Production

Half Year Sales Report (net to Pryme)

Project	H1 2013		H2 2013		H1 2014	
	Natural Gas	Oil/ Condensate (Bbls)	Natural Gas (Mcf)	Oil/ Condensate (Bbls)	Natural Gas (Mcf)	Oil/ Condensate (Bbls)
Four Rivers*	0	5,947	0	5,162	0	4,650
Raven*	20,649	402	19,542	356	18,461	347
Turner Bayou	0	5,697	0	4,799	0	1,755
Total**	**20,649**	**12,046**	**19,542**	**10,317**	**18,461**	**6,752**
Total (BOE#)	**15,488**		**13,574**		**9,829**	

** Actual sales for the last month of the quarter is an estimate based on production data from prior months of production.*

*** Includes minor amounts of production from additional projects (i.e. Condor).*

 # Natural gas is converted to BOE on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.

Major achievements during the first half of the year include:

- Securing the Capitola Oil Project, Permian Basin, Texas
  - Pryme has secured the right to earn a 75% working interest in 9,333 acres (7,000 net acres) in all mineral rights from the surface through to the top of the Cline Shale and a 50% working interest (4,666 net acres) in all other mineral rights including the Cline Shale.
- Raising sufficient capital to begin the Capitola drilling program
  - During the first half of the year Pryme launched a renounceable rights issue to raise A$5.2 million. The rights issue closed on 17 July raising A$4.0 million through the through the issue of 400 million shares and 400 million options to existing shareholders and to the underwriter.
- Extinguishing Macquarie Bank non-recourse Turner Bayou project loan
  - Pryme's wholly owned subsidiary, Pryme Oil and Gas LLC (Pryme LLC), entered into an agreement to sell its interest in the Turner Bayou project to a US publicly listed company. Pryme LLC retains an option to participate at a 5% working interest level in future Turner Bayou wells.
  - In 2012 Pryme LLC secured a non-recourse loan from Macquarie Bank to fund Turner Bayou project drilling activities. With the sale of the Turner Bayou project, the outstanding loan amount of US$6.8 million under the Macquarie Bank Limited Non-Recourse Loan Agreement (Macquarie Facility) will be extinguished, and Pryme LLC's obligations under the Macquarie Facility will be released.

Capitola Oil Project attributes

Low risk development with exploration upside
Oil prolific Permian Basin, Texas
9,333 acres within existing, proven oil fields*
Lower risk/lower cost vertical production wells –Step-out and down spacing opportunities from wells drilled in known proven sands
Multi-stacked reservoir – target 10 potential productive intervals
Lower risk/lower cost vertical production wells
Potential to drill 200+ wells on 40 acre spacing over time
Secondary water/gas flood recovery opportunity in Claytonville

+

Exciting emerging Cline Shale play upside
Exciting, burgeoning Texas shale play 140 mi long and 70 mi wide
Analysts estimate it to be larger than the Bakken Shale in North Dakota and the Eagle Ford Shale in South Texas combined
Early mover advantage for Pryme
Area of strong activity: Devon Energy, Apache, Range Resources and Laredo Petroleum
Pryme acreage offset to Devon Energy's best producing Cline Shale well in region (Bishop 1H)
Recent Devon wells in close vicinity to Capitola a strong endorsement: Bishop 2H well (1 mi), Parker 1H well (2 mi), and BK Harris 3H well (8 mi)

** Sweetwater field has produced approx. 4.5 MMbbl of oil; Claytonville field has produced 1.5 MMbbl of oil; over 150 previous well bores within Pryme's Capitola acreage.*

Projects

Capitola Oil Project (50% - 75% WI)

The Capitola Oil Project is a project that meets all of our new project criteria. It has a risk managed earn-in structure; it offers the prospect of low risk conventional production from several productive horizons, which are accessible through shallow vertically drilled wells (these wells will be drilled in the early stages of the project and are expected to create a lot of value for the company); and it has great upside with the Cline Shale potential which is already being demonstrated by major exploration and production companies that surround us.

In addition to being a very good address, the Capitola project area is target rich and provides plenty of scope for significant field development based on multiple primary oil bearing formations. Drilling is scheduled to commence in mid-September with two vertical wells, to a depth of approximately 6,000 feet, to intersect the Cline Shale, the Canyon Sands and the Breckenridge Lime which are the three major target formations above that depth.

Activity by other companies surrounding the Capitola Oil project is intensifying. In particular, Devon Energy (NYSE:DVN - Devon), which surrounds Pryme's Capitola acreage with leases, continues to permit new wells and have drilling and production success with horizontal well development of the Cline Shale formation. This activity is a strong endorsement of Pryme's interest in the Capitola Oil project. Other large oil and gas operators, such as Range Resources (NYSE:RRC) and Laredo Petroleum (NYSE:LPI), have leased significant tracts of land in the Cline Shale and are continuing to drill horizontal wells in and around the Capitola Oil Project with good results.

More information on the Capitola Oil Project can be found on our website at www.prymeenergy.com.

Four Rivers Project (8% - 25% WI)

Half year oil sales of 4,650 barrels (26 Bbls/day net to Pryme) were 10% lower than for the previous half year. This is mainly attributable to timing of oil deliveries and normal decline.

Pryme has an interest in 1,260 acres (240 acres net to Pryme) located in LaSalle and Catahoula Parishes Louisiana and Jefferson and Wilkinson Counties in Mississippi.

About Four Rivers

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

Raven Project (35% WI / 25.38% NRI)

Half year sales for the Raven project were 18,461 Mcf of natural gas and 347 barrels of condensate net to Pryme (102 Mcfd and 1.9 Bbls/day net to Pryme respectively), reflecting 5.5% decrease in gas sales over the previous half year and a 2.5% decrease in condensate sales due timing of oil sales and normal decline.

Pryme has an interest in 1,280 acres (440 acres net to Pryme) located in Lincoln Parish, Louisiana.

Turner Bayou Chalk Project

- Deshotels 20H and 13H Production (40% WI / 30% NRI)
- Rosewood Plantation 21H No.1 (61.53% WI / 46.15% NRI)

The average daily production rate for the Turner Bayou wells during the half year ending 2014 was 18 Bbls/day (net to Pryme). Production has remained fairly stable for the Deshotels 13 and 20H wells, while the Rosewood Plantation well remains in need of artificial lift.

The three Turner Bayou production units hold approximately 3,360 acres (1,580 acres net to Pryme) by production plus 16,942 acres (6,759 acres net to Pryme) in undeveloped acreage.

About Turner Bayou

The Turner Bayou project is located in Avoyelles Parish, Louisiana, and comprises approximately 80 square miles (50,000 acres) which have been imaged by a proprietary 3D seismic survey initially targeting development of the Austin Chalk horizon. In addition to the Austin Chalk potential of the Turner Bayou project area, exploration drilling within Pryme's Turner Bayou leases has intersected the Tuscaloosa Marine Shale which is analogous to the Eagle Ford Shale in South Texas.

Projects

Oil and Gas Tenements

Project	Location	Interest acquired or disposed of during the half year	Total acres (net to Pryme)	Interest held as at 30 June 2014
Raven	Lincoln Parish, Louisiana	-	1,280 acres (440 acres)	35%
Four Rivers	LaSalle and Catahoula Parishes, Louisiana; Jefferson & Wilkinson Counties, Mississippi	-	1,260 acres (240 acres)	19%
Turner Bayou*	Avoyelles Parish, Louisiana	-	20,302 acres (8,339 acres)	40%
Capitola**	Nolan and Fisher Counties, Texas	75% WI secured through farm in agreement from surface to the top of the Cline Shale	9,333 acres (7,000 acres)	75%
		50% WI secured through farm in agreement from the top of the Cline Shale deeper	9,333 acres (4,666 acres)	50%

**The Company's share of the Turner Bayou assets are pledged as security to Macquarie Bank for a non-recourse credit facility.*
***On 6 February 2014 Pryme entered into a farm in agreement to earn a share of 9,333 acres in the Capitola Oil project. An assignment of acreage will be earned by Pryme upon it drilling the first well in the project. The assignment of acreage will be retained by Pryme by meeting certain drilling obligations through to February 1, 2016. Further details about the farm in terms can be found in the Company's announcement on Capitola dated February 11, 2014.*

For further Company information please visit our website at www.prymeenergy.com or contact:

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Glossary

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

Auditor's Independence Declaration

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

pwc

Auditor's Independence Declaration

As lead auditor for the review of Pryme Energy Limited for the half-year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Simon Neill
Partner
PricewaterhouseCoopers

Brisbane
4 September 2014

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Financials

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2014

	Note	Consolidated Entity 30 June 2014 $	30 June 2013 $
Revenue	2	650,751	778,825
Production Costs		(150,631)	(220,527)
Gross Profit		500,120	558,298
Audit and accounting fees		(77,546)	(74,184)
Depletion, depreciation and impairment write off		(235,873)	(265,682)
Directors' remuneration	3	(417,047)	(300,007)
Professional consulting fees	3	(127,835)	(158,132)
Employee benefits expense		(151,552)	(130,839)
Legal and secretarial fees		(46,465)	(29,310)
Share registry and listing fees		(23,967)	(20,893)
Travel expenses		(115,791)	(78,969)
Other income	2	279,388	-
Finance costs		(2,842)	-
Administration expenses		(101,666)	(141,866)
Profit / (Loss) before income tax		**(521,076)**	**(641,584)**
Income tax expense		-	-
Profit / (Loss) from continuing operations		**(521,076)**	**(641,584)**
Profit / (Loss) attributable to discontinued operations		(506,475)	(16,903,122)
Profit / (Loss) for the period		(1,027,551)	(17,544,706)
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Net gain /(loss) on foreign currency translation reserve		(252,669)	2,131,710
Income tax related to this item		-	-
Total Comprehensive Income/(Loss)		**(1,280,220)**	**(15,412,996)**
Profit/(Loss) from continuing operations attributable to ordinary equity owners of the company		**(521,076)**	**(641,584)**
Profit/(Loss) attributable to ordinary equity owners of the company		**(1,027,551)**	**(17,544,706)**
Total Comprehensive Income/(Loss) attributable to ordinary equity owners of the company		**(1,280,220)**	**(15,412,996)**
Basic earnings per share from continuing operations		(0.2) cents	(0.2) cents
Diluted earnings per share from continuing operations		(0.2) cents	(0.2) cents
Basic earnings per share		(0.3) cents	(6.1) cents
Diluted earnings per share		(0.3) cents	(6.1) cents

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE HALF YEAR ENDED 30 JUNE 2014

		Consolidated Entity	
	Note	30 June 2014	31 December 2013
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,022,217	1,556,605
Trade and other receivables	5	300,857	367,957
Other current assets		35,241	33,232
TOTAL CURRENT ASSETS		**1,358,315**	**1,957,794**
NON-CURRENT ASSETS			
Property, plant and equipment		17,709	26,628
Working Interest	6	4,962,146	12,991,469
TOTAL NON-CURRENT ASSETS		**4,979,855**	**13,018,097**
TOTAL ASSETS		**6,338,170**	**14,975,891**
CURRENT LIABILITIES			
Trade and other payables		660,331	2,374,202
Net financial liabilities classified as held for sale	9	954,901	-
Borrowings	7	-	7,553,988
TOTAL CURRENT LIABILITIES		**1,615,232**	**9,928,190**
NON-CURRENT LIABILITIES			
Provisions		94,392	149,773
TOTAL NON-CURRENT LIABILITIES		**94,392**	**149,773**
TOTAL LIABILITIES		**1,709,625**	**10,077,963**
NET ASSETS		**4,628,545**	**4,897,928**
EQUITY			
Issued capital	8	47,150,931	46,140,094
Reserves		(3,875,656)	(3,622,987)
Accumulated losses		(38,646,730)	(37,619,179)
TOTAL EQUITY		**4,628,545**	**4,897,928**

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2014

	Note	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Total
		$	$	$	$	$
Balance at 1 January 2013		**45,160,032**	**(17,585,086)**	**(5,871,470)**	**48,424**	**21,751,900**
Total Comprehensive Loss for the half year		**-**	**(17,544,706)**	**2,131,710**	**-**	**(15,412,996)**
Share issue		987,223	-	-	-	987,223
Share issue costs		(55,535)	-	-	-	(55,535)
Transfer from options reserve to share capital		32,827		-	(32,827)	-
Balance at 30 June 2013		**46,124,547**	**(35,129,792)**	**(3,739,760)**	**15,597**	**7,270,592**
Balance at 1 January 2014		**46,140,094**	**(37,619,179)**	**(3,622,987)**	**-**	**4,897,928**
Total Comprehensive Loss for the half year		**-**	**(1,027,551)**	**(252,669)**	**-**	**(1,280,220)**
Share issue		1,094,908	-	-	-	1,094,908
Share issue costs		(84,071)	-	-	-	(84,071)
Balance at 30 June 2014		**47,150,931**	**(38,646,730)**	**(3,875,656)**	**-**	**4,628,545**

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2014

	Note	Consolidated Entity 30 June 2014 $	Consolidated Entity 30 June 2013 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,125,590	1,389,107
Payments to suppliers and employees		(1,617,543)	(1,475,031)
Other receipts		272,077	-
Interest received		6,913	22,798
Net cash (used in)/provided by operating activities		**(212,963)**	**(63,126)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(1,956)
Payments for working interest		(1,118,181)	(1,603,171)
Proceeds from sale of working interest		-	-
Net cash provided by/(used in) investing activities		**(1,118,181)**	**(1,605,127)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue (net of share issue costs)		890,837	931,688
Payment of interest and finance fees		(62,555)	(216,062)
Proceeds/(Repayment of) borrowings/convertible notes	7	-	1,271,904
Net cash (used in)/provided by financing activities		**828,282**	**1,987,530**
Net (decrease)/increase in cash held		(502,862)	319,277
Cash at beginning of period		1,556,605	2,074,453
Effect of exchange rate movement		(31,526)	101,768
Cash at end of period		**1,022,217**	**2,495,498**
Non cash financing and investing activities	8	120,000	-

The accompanying notes form part of these financial statements

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION

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

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2013 and any public announcements made by Pryme Energy Limited ("Pryme" or "the Company") and its controlled entities ("Consolidated Entity" or the "Group") during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those in the annual financial report for the year ended 31 December 2013. The Company has adopted a number of Australian Accounting Standards and Interpretations that are mandatory for reporting periods beginning on or after 1 January 2014. The adoption of these standards did not have any impact on the current period or any previous period and is not likely to affect future periods.

Going Concern

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

Consistent with other oil and gas exploration companies, in addition to cashflow from existing production, Pryme raises capital to fund exploration activities as required. As announced to the ASX on 22 July 2014, the Company completed a $4M rights issue. Accordingly, the financial report has been prepared on a going concern basis in the belief that the Company will realise its assets and settle its liabilities in the normal course of business and for at least the amounts stated in the financial report.

The ability of the Company to continue as a going concern and meet it's debts and commitments as they fall due is dependent upon existing cashflows and the Company securing sufficient capital which may be in the form of (or some combination of) the following:

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

The directors believe that the Company will continue to be successful in securing sufficient capital and accordingly have prepared the report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 30 June 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2017)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2017 but is available for early adoption. When adopted, the standard will affect the accounting for available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Group does not currently have and available-for-sale financial assets. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The new hedging rules will make it easier to apply hedge accounting going forward. The Group does not currently have any hedges in place. The new standard also introduces expanded disclosure requirements and changes in presentation.

Amendments to IFRS 11 Accounting for Acquisitions in Joint Operations (effective 1 January 2016)

In May 2014, the IASB made limited scope amendments to IFRS 11 Joint arrangements to explicitly address the accounting for the acquisition of an interest in a join operation. The amendments require the investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments apply from 1 January 2016 and will therefore not affect any of the amounts currently recognised in the financial statements.

Revenue from Contracts with Customers (effective 1 January 2017)

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer with the notion of control replacing the existing notion of risks and rewards. The group has not yet considered the effect of the new rules on its revenue recognition policies. The Group intends to apply the amendment from 1 January 2017.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2014

NOTE 2: REVENUE FROM ORDINARY ACTIVITIES

	Consolidated Entity	
The following revenue items are relevant in explaining the financial performance for the interim period:	30 June 2014 $	30 June 2013 $
Oil and Gas revenue – continuing operations	643,838	732,549
Other income – interest	6,913	22,798
Other income – operator fees	-	23,478
Total Revenue continuing operations	**650,751**	**778,825**
Oil and Gas revenue – discontinued operations	204,228	604,839
Total Revenue for the period	**854,979**	**1,383,664**
Other income – Bankruptcy settlement proceeds*	279,388	-

* In 2010 a third party operator of Pryme's Four Rivers project filed for Chapter 11 bankruptcy in the USA. This amount represents bankruptcy settlement proceeds to Pryme.

NOTE 3: DIRECTORS' REMUNERATION

Total Directors' remuneration of $532,743 (2013: $435,124) comprises:

- $417,047 (2013: $300,007) which was paid in cash or cash equivalents as salary to directors;
- $115,696 (2013: $135,117) which was paid in cash or cash equivalents for consulting services to entities in which directors hold beneficial entitlements.

NOTE 4: DIVIDENDS

There were no ordinary dividends declared or paid during the period under review (2013: $Nil).

NOTE 5: RECEIVABLES

	Consolidated Entity	
	30 June 2014 $	31 December 2013 $
CURRENT		
Trade receivables	168,147	219,118
Other	132,710	148,839
	300,867	**367,957**

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2014

NOTE 6: WORKING INTEREST

	Consolidated Entity	
	30 June 2014	31 December 2013
	$	$
Exploration expenditure capitalised		
Exploration and evaluation phases	756,187	8,549,741
Less impairment write off	-	(4,888,609)
	756,187	3,661,132
Production phase	9,829,370	33,707,852
Less accumulated depletion	(5,623,411)	(12,251,091)
Less impairment write off	-	(12,126,424)
	4,205,959	9,330,337
Total Exploration Expenditure Capitalised	**4,962,146**	**12,991,469**

Refer to Note 9 for details of the sale of the Turner Bayou project.

NOTE 7: BORROWINGS - CURRENT

	Consolidated Entity	
	30 June 2014	31 December 2013
	$	$
Non-Recourse Debt Facility	-	7,553.988
Total Borrowings – Current	-	7,553,988

Refer to Note 9 for details of the sale of the Turner Bayou project.

NOTE 8: ISSUED CAPITAL

	Consolidated Entity	
	30 June 2014	31 December 2013
	$	$
Fully paid ordinary shares	49,715,120	48,620,212
Capital raising costs	(2,564,189)	(2,480,118)
	47,150,931	46,140,094
Number of ordinary shares on issue at the end of the period:	344,453,990	289,708,568

As announced to the ASX on 11 February 2014, the Company agreed to issue 6,000,000 shares at $0.02 as part consideration of the acquisition of the Capitola project. In addition, during the period ending 30 June 2014 the Company issued 2,500,000 shares at $0.02 in lieu of lead manager fees in relation to the Rights Issue completed and announced to ASX on 16 April 2014. Under the Rights Issue, an additional 46,245,422 shares were issued at $0.02.

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2014

NOTE 9: DISCONTINUED OPERATIONS

On the 26th May 2014, the Company announced that its wholly owned subsidiary Pryme Oil and Gas LLC had entered into an agreement to sell its interest in the Turner Bayou project retaining an option to participate at a 5% working interest level in any future Turner Bayou wells. Financial information relating to the discontinued operation for the period to 30 June 2014 is set out below.

	Consolidated Entity	
	30 June 2014	30 June 2013
	$	$
Revenue	204,228	604,839
Expenses	(710,703)	(17,507,961)
Profit / (Loss) before income tax	(506,475)	(16,903,122)
Income tax expense	-	-
Profit / (Loss) after income tax	**(506,475)**	**(16,903,122)**
Net cash inflow / (outflow) from operations	(118,347)	400,648
Net cash inflow / (outflow) from investing	(514,012)	(1,411,837)
Net cash inflow / (outflow) from financing	(62,555)	956,960
Net increase / (decrease) in cash	**(694,914)**	**(54,229)**

The carrying amounts of Turner Bayou assets and related liabilities included as at 30 June 2014 are:

Working Interest Asset	7,701,968
Trade Payables	(1,365,399)
Borrowings – non recourse debt	(7,240,218)
Provisions	(51,252)
Net financial liabilities classified as held for sale	**(954,901)**

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

During the year ended 31 December 2013 the carrying amount of the Turner Bayou project was written down in recognition that certain covenants under the Term Facility had been breached that could have resulted in Pryme's interest in the Turner Bayou project being relinquished in settlement of the loan and accrued costs. As announced to the ASX on 26 May 2014, Pryme Oil and Gas LLC, which solely comprise Pryme's interest in the Turner Bayou project, has entered in to an agreement to sell its interest in the Turner Bayou project and extinguish its obligations under the Macquarie Bank Term Facility. Accordingly the net financial liabilities relating to the Turner Bayou project have been classified as held for sale at 30 June 2014 as the agreement is expected to be executed and completed within the next twelve months.

Financials (cont.)

NOTE 10: SEGMENT REPORTING

Operating Segments — Geographical Segments

The Group comprises the following two operating segments defined geographically:

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

	Australia	United States of America	Eliminations	Total
2014	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue		848,066	-	848,066
Intercompany Management Fee	716,202		(716,202)	-
Other	6,913	279,388	-	286,301
Expenditure				
Production Expenses	-	(294,499)	-	(294,499)
Depletion, depreciation and exploration expenditure written off	(1,886)	(408,144)	-	(410,030)
Employee Related Expenses	(402,328)	(166,271)	-	(568,599)
Intercompany Management Fee	-	(716,202)	716,202	-
Other	(306,351)	(3,273,823)	2,691,384	(888,790)
Segment result	**12,550**	**(3,731,485)**	**2,691,384**	**(1,027,551)**
Assets	15,808,849	6,014,518	(15,485,197)	6,338,170
Liabilities	(266,604)	(47,753,212)	46,310,191	(1,709,625)
2013	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue	-	1,337,388	-	1,337,388
Intercompany Management Fee	669,727	-	(669,727)	-
Other	22,798	23,478	-	46,276
Expenditure				
Production Expenses	-	(434,318)	-	(434,318)
Depletion, depreciation and exploration expenditure written off	(2,419)	(17,167,892)	-	(17,170,311)
Employee Related Expenses	(350,984)	(79,862)	-	(430,846)
Intercompany Management Fee	-	(669,727)	669,727	-
Intercompany Loan Provision	(27,147,986)	-	27,147,986	-
Other	(298,791)	4,927,609	(5,521,713)	(892,895)
Segment result	**(27,107,655)**	**(12,063,324)**	**21,626,273**	**(17,544,706)**
Assets	14,720,112	13,944,810	(13,689,031)	14,975,891
Liabilities	(201,255)	(54,390,727)	44,514,019	(10,077,963)

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2014

NOTE 11: CONTINGENT LIABILITIES & COMMITMENTS

There has been no change in contingent liabilities since the last annual reporting date 31 December 2013.

NOTE 12: SUBSEQUENT EVENTS

As announced to the ASX on 22 July 2014, the Company completed an Adjusting Offer and a Renounceable Rights Issue raising $4 million (before costs) to be primarily used for Pryme's Capitola Oil project in Texas. As a result of the Rights Issue and the Adjusting Offer announced via the prospectus lodged with the ASX on 30 June 2014, and subsequent to shareholder approval at the Extraordinary General Meeting held on 06 August 2014, the Company issued total additional shares of 446,245,422 and 400,000,023 attaching $0.02 options with an expiry date of 26 July 2016. An additional 90,738,040 unlisted options were issued to employees of the Company subject to the achievement of certain performance conditions related to the Capitola project.

Directors' Declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 9 to18 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date, and

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

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

Justin Pettett
Managing Director

Brisbane
4 September 2014

Auditor's Review Report

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pryme Energy Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Pryme Energy Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pryme Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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*.

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Auditor's Review Report (cont.)

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Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Simon Neill
Partner

Brisbane
4 September 2014

Corporate Directory

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

Chief Financial Officer
Sandra Gaffney

Company Secretary
Ms Swapna Keskar

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International OTCQX
Code: POGLY

Australian Company Number
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Australian Business Number
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pryme energy

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