



PRYME OIL AND GAS LTD
ABN 75 117 387 354

NOTICE OF GENERAL MEETING

TIME: 11.00am EST

DATE: 20th July 2006

PLACE: The Oak Room
Level 4 The Brisbane Club
241 Adelaide Street, Brisbane, Queensland
(Entrance via Brisbane Club Tower, Post Office Square (Queen
Street Level))

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (08) 9489 7010

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The General Meeting of the Shareholders of Pryme Oil and Gas Ltd which this Notice of Meeting relates to will be held at 11.00am EST on the 20th July 2006 at:

The Oak Room level 4 The Brisbane Club, 241 Adelaide Street, Brisbane, Qld

YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the proxy form enclosed and:

- (a) send the proxy form by post to Pryme Oil and Gas Limited, GPO Box 111, Brisbane Queensland 4001; or
- (b) fax the proxy form to the Company on facsimile number (07) 3371 1105,

so that it is received not later than 11.00am EST on 18th July 2006

Proxy forms received later than this time will be invalid.

NOTICE OF GENERAL MEETING

Notice is given that the General Meeting of Shareholders of Pryme Oil and Gas Ltd will be held at the Oak Room level 4 the Brisbane Club, 241 Adelaide Street, Brisbane Qld 4001 at 11.00am EST on 20th July 2006.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the proxy form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company on 18th July 2006 at 11.00am EST.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

AGENDA

RESOLUTION 1 – ISSUE OF OPTIONS TO FIRST CAPITAL CORPORATE LTD

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the directors to allot and issue 3,500,000 options to acquire Shares to First Capital Corporate Ltd (or its nominee) on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by First Capital Corporate Ltd or any of its associates.

RESOLUTION 2 – GRANT OF OPTIONS UNDER DIRECTORS INCENTIVE OPTION PLAN

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 7.1 (exception 9) and for all other purposes, approval is given for the Directors to grant options to acquire Shares under the Company’s Directors’ Incentive Option Plan (DIOP), in accordance with the terms and conditions of the DIOP the principal terms of which are summarised in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associates of those persons.

RESOLUTION 3 – ISSUE OF SHARES UNDER DIRECTORS SHARE INCENTIVE PLAN

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 7.1 (exception 9) and for all other purposes, approval is given for the Directors to grant Shares under the Company’s Directors Share Incentive Plan (DSIP) in accordance with the terms and conditions of the DSIP, a summary of which is set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any

employee incentive scheme in relation to the Company) and any associates of those persons.

RESOLUTION 4 – ISSUE OF SECURITIES TO JOHN DICKINSON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the directors to allot and issue to John Dickinson (or his nominee):

- (a) 1,380,000 Shares under the Company’s DSIP; and*
- (b) 3,450,000 options to acquire Shares under the terms of the Company’s DIOP,*

on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by John Dickinson (or any director of the Company except one who is ineligible to participate in any employee incentive scheme in relation to the Company) or any associates of those persons.

RESOLUTION 5 – ISSUE OF SECURITIES TO JUSTIN PETTETT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the directors to allot and issue to Justin Pettett (or his nominee):

- (a) 2,000,000 Shares under the Company’s DSIP; and*
- (b) 5,000,000 options to acquire Shares under the terms of the Company’s DIOP,*

on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by Justin Pettett (or any director of the Company except one who is ineligible to participate in any employee incentive scheme in relation to the Company) or any associates of those persons.

RESOLUTION 6 – ISSUE OF SECURITIES TO RYAN MESSER

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the directors to allot and issue to Ryan Messer (or his nominee):

- (a) 1,380,000 Shares under the Company’s DSIP; and*

(b) 3,450,000 options to acquire Shares under the terms of the Company's DIOP,

on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this resolution by Ryan Messer (or any director of the Company except one who is ineligible to participate in the DSIP or the DIOP) or any associates of those persons.

RESOLUTION 7 – ISSUE OF OPTIONS TO CRAIG SCEROLER

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the directors to allot and issue up to 500,000 options to acquire Shares to Craig Sceroler (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this resolution by Craig Sceroler (or any person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed) and any associates of those persons.

RESOLUTION 8 – ISSUE OF OPTIONS TO JAMES STEWART

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the directors to allot and issue up to 250,000 options to acquire Shares to James Stewart (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this resolution by James Stewart (or any person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed) and any associates of those persons.

RESOLUTION 9 – ISSUE OF OPTIONS TO WAVE EXPLORATION GROUP LLC

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the directors to allot and issue 250,000 options to acquire Shares to Wave Exploration Group LLC (or its nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this resolution by Wave Exploration Group LLC (or any person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed) and any associates of those persons.

RESOLUTION 10 – ISSUE OF OPTIONS TO DON ELLISON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the directors to allot and issue 250,000 options to acquire Shares to Don Ellison (or his nominee) on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by Andrew Price (or any person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed) and any associates of those persons.

RESOLUTION 11 – ISSUE OF OPTIONS TO BELLE OIL INC

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the directors to allot and issue 250,000 options to acquire Shares to Belle Oil Inc on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by Belle Oil Inc (or any person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed) and any associates of those persons.

RESOLUTION 12 – PLACEMENT OF SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue:

- (a) 15,000,000 Shares at an issue price of not less than 80% of the average market price for Shares each, calculated over the last 5 trading days prior to issue or, if there is a prospectus relating to the issue, calculated over the last 5 days on which sales in the Shares were recorded before the date the prospectus was signed; together with*
- (b) free attaching options on the basis of 1 option for every 2 Shares issued pursuant to part (a) of this resolution,*

by means of a placement to investors and otherwise, on the terms set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any associates of those persons.

DATED THIS 19th DAY OF JUNE 2006

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'JP', with a long horizontal stroke extending to the right.

JUSTIN PETTETT
MANAGING DIRECTOR
PRYME OIL AND GAS LTD

Voting Exclusion Note:

Where a voting exclusion applies, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders of the Company in connection with the business to be conducted at the General Meeting to be held at the Oak Room level 4 the Brisbane Club, 241 Adelaide Street, Brisbane Qld 4000 on 20th of July 2006 at 11.00am EST.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolution in the Notice of Meeting.

This Explanatory Statement is an important document. It should be read carefully. If you have any questions regarding the matters set out in this Explanatory Statement or the preceding Notice, please contact the Company, your stockbroker or other professional adviser.

1. RESOLUTION 1 – ISSUE OF OPTIONS TO FIRST CAPITAL CORPORATE LTD

1.1 General

FCCL is a company in which Mr Ananda Kathiravelu holds a relevant interest. FCCL provides marketing, promotional, strategic advice and introduction to investor network services to the Company. In consideration for the provision of those services the Board (other than Mr Kathiravelu) has agreed subject to obtaining shareholder approval, to grant 3,500,000 options (**FCCL Options**) on the terms and conditions set out below.

FCCL is a related party of the Company by virtue of the fact that it is controlled by a director of the Company, Mr Ananda Kathiravelu. The grant of the FCCL Options requires shareholder approval under Listing Rule 10.11 and Section 208 of the Corporations Act.

1.2 Valuation of options

The FCCL Options have been valued using the Black & Scholes pricing model and on the assumptions described in Schedule 4 of this Explanatory Statement.

1.3 Trading price of Shares

Between the date the Shares were listed on ASX (20 April 2006) to the date of this Notice the highest, lowest and latest trading price of Shares on ASX were:

Highest	\$0.30 on 5 June 2006
Lowest	\$0.23 on 21 April 2006
Last	\$0.26 on 16 June 2006

1.4 Shareholder Approvals Required – Chapter 2E of the Corporations Act and ASX Listing Rule 10.11

Shareholder approval is required under Chapter 2E of the Corporations Act and ASX Listing Rule 10.11 for the grant of the FCCL Options to FCCL

because it is a related party of the Company by virtue of Mr Kathiravelu, a director of the Company, also being a controller of FCCL.

For the purposes of sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided to allow shareholders to assess the proposed grant of the FCCL Options:

- (a) the maximum number of FCCL Options (being the nature of the financial benefit being provided) to be granted to FCCL is 3,500,000 FCCL Options to vest in 3 tranches in accordance with their terms;
- (b) the FCCL Options will be granted for nil cash consideration, accordingly no funds will be raised from the grant of the FCCL Options;
- (c) the value of the FCCL Options and the pricing methodology is set out in Schedule 4 to this Explanatory Statement;
- (d) Mr Kathiravelu receives a total remuneration package from the Company of \$20,000 per year plus superannuation. Mr Kathiravelu has not received any other emoluments from the Company;
- (e) FCCL and Mr Kathiravelu currently have an interest in the following securities in the Company:

	Shares	Options*
FCCL	4,687,500	Nil
Ananda Kathiravelu	40,000	Nil

- (f) if the FCCL Options granted to FCCL are exercised, a total of 3,500,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 50,900,000 to 54,400,000 (assuming that no other options are exercised and no other Shares issued) with the effect that the shareholding of existing Shareholders would be diluted as follows:

Related Party	Number of options to be issued	Issued Shares at the date of this Notice	Dilutionary effect if all options issued to FCCL are exercised
FCCL	3,500,000	50,900,000	6.43%

The market price for Shares during the term of the options would normally determine whether or not the options are exercised. If, at any time any of the options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the options, there may be a perceived cost to the Company. Information on the trading history of the Shares on ASX in the past 12 months is set out above;

- (g) the FCCL Options are exercisable as follows:
 - 1,166,666 options are exercisable immediately;

- 1,166,666 options are exercisable from the time Share price trades on ASX at \$0.30 calculated on the basis of a 5 trading day VWAP; and
- 1,166,667 options are exercisable from the time Share price trades on ASX at \$0.35 calculated on the basis of a 5 trading day VWAP.

Once all of the conditions of exercise have been met, the FCCL Options are exercisable by no later than 5.00 pm (EST) on 30 June 2008 (Expiry Date) by completing an option exercise form and delivering it together with the payment for the number of Shares in respect of which the options are exercised to the registered office of the Company.

The other terms and conditions of the FCCL Options are set out in Schedule 1;

- (h) the FCCL Options will be granted to FCCL no later than 1 month after the date of the meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules);
- (i) the primary purpose of the issue of the FCCL Options is to provide consideration to FCCL for its services in providing marketing, promotions, strategic advice and for its introduction of the Company to investor networks. Given this purpose and bearing in mind the exercise terms of the options, the Directors (other than Mr Kathiravelu) do not consider that there are any significant opportunity costs to the Company or benefits forgone by the Company in issuing the options upon the terms proposed; and
- (j) Mr Kathiravelu declines to make a recommendation to Shareholders in relation to Resolution 1 due to his material personal interest in the outcome of the resolution. The other Directors, who do not have a material interest in the outcome of Resolution 1, recommend that Shareholders vote in favour of Resolution 1. The Directors (other than Mr Kathiravelu) are not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the resolution.

Approval pursuant to Listing Rule 7.1 is not required in order to issue the options as approval is being obtained under Listing Rule 10.11. Accordingly, the issue of securities to FCCL will not be included in the 15% calculation for the purposes of Listing Rule 7.1.

2. RESOLUTIONS 2 AND 3 – ISSUE OF SECURITIES UNDER DIRECTORS’ INCENTIVE OPTION PLAN AND DIRECTORS SHARE INCENTIVE PLAN

2.1 Background

As part of its review of appropriate remuneration for Directors of the Company (on achievement of listing of the Company on the ASX), the Board has agreed that it is appropriate to introduce the Directors’ Incentive Option Plan (**DIOP**) and the Directors’ Share Incentive Plan (**DSIP**).

The objectives of the DIOP and the DSIP are to recognise performance by the Directors in managing the Company's growth and market performance on achievement of specific performance targets during a 3 year performance period commencing from 1 July 2006 and ending on 30 June 2009 (**Performance Period**).

The Board will ensure that the Directors who are nominated to participate in the DIOP and DSIP perform strategic and management functions and contribute to the growth of the Company's business activities, particularly in the United States of America.

2.2 Requirement for shareholder approval

Under Listing Rule 7.1, a company must not issue or agree to issue, equity securities amounting to more than 15% of the issued capital in any rolling 12 month period without shareholder approval unless an exception applies. One of the exceptions is an issue of securities under an employee incentive scheme which was approved by shareholders no more than three years before the date of issue. The resolutions set out in Resolutions 2 and 3 of the notice of meeting seeks shareholder approval for the grant of options under the DIOP, and for the issue of Shares under the DSIP so they will not be included in the 15% limit referred to above.

2.3 Rules of the DIOP

A summary of the principal terms of the DIOP rules is set out in Schedule 2 to the Explanatory Statement. A summary of the principal terms of the DSIP rules is set out in Schedule 3 to the Explanatory Statement. A full copy of the DIOP rules and the DSIP rules is available on the Company's website, www.prymeoilandgas.com, or you may request a copy by sending an email to Justin@prymeoilandgas.com.

2.4 2006 Offer under the DIOP and DSIP to Directors

It is proposed that an initial offer will be made to the Directors described in Resolutions 4, 5 and 6 after shareholder approval is obtained at the Meeting. The proposed terms of the initial offers under the DIOP and DSIP are set out below in this Explanatory Statement.

It is envisaged that future offers under the DIOP and the DSIP may be made on different terms to those that apply to the proposed offers described in this Explanatory Statement.

3. RESOLUTIONS 4, 5 AND 6 – ISSUE OF SECURITIES TO JOHN DICKINSON, JUSTIN PETTETT AND RYAN MESSER

3.1 General

It is proposed that John Dickinson, the Chairman of the Company, Justin Pettett (the Managing Director of the Company) and Ryan Messer a director of the Company (**together the Participating Directors**) be entitled to participate in the DIOP and the DSIP. It is important to note that while John Dickinson and Ryan Messer are non-executive directors, they are both heavily involved in the Company's activities in the US, and the Board considers that their contribution is critical to the Company achieving the performance targets that have been set. As each of the Participating

Directors are a related party of the Company, it is considered appropriate to seek Shareholder approval to the issue of the Securities under the DIOP and the DSIP to the Participating Directors under Resolutions 4, 5 and 6.

3.2 Terms of Participation in the DIOP

The following is a summary of the key terms on which the Participating Directors will participate in the DIOP.

Form of Award and Performance Criteria

It is proposed that the Participating Directors will receive a total of 11,900,000 DIOP Options to be granted in three tranches on achievement of the following performance targets:

(a) on the Company achieving an increase, in the annual net operating income of the Company through the drilling of further development wells in the La Salle Parish Project by 25% (to AU\$1,250,000 annually, calculated monthly) by 21 April 2007:

- (i) 759,000 DIOP Options to John Dickinson;
- (ii) 759,000 DIOP Options to Ryan Messer; and
- (iii) 1,100,000 DIOP Options to Justin Pettett;

- (b) (i) 1,483,500 DIOP Options to John Dickinson;
- (ii) 1,483,500 DIOP Options to Ryan Messer; and
- (iii) 2,150,000 DIOP Options to Justin Pettett,

on the Company achieving within the Performance Period, the following in aggregate:

- (i) completion of the 3D data acquisition (together with receipt of field tapes) and evaluation; and
- (ii) completion of the preparation stage required for preparation from the 3D data acquired of at least 10 drilling prospects in the South Central Louisiana seismic play; and
- (iii) a total of 1,000,000 cubic feet per day or oil equivalent net to the Company is produced (oil equivalent for this calculation is set at 6,000 cubic feet equals 1 barrel of oil):

(c) on the Company achieving an annualised EBIT (Earnings Before Interest and Tax) of AU\$10,000,000 calculated monthly from the projects that the Company participates in within the Performance Period:

- (i) 1,207,500 DIOP Options to John Dickinson;
- (ii) 1,207,500 DIOP Options to Ryan Messer; and
- (iii) 1,750,000 DIOP Options to Justin Pettett.

Consequences of termination of appointment as director

If Participating Directors cease to be directors either because they are terminated by the Company or they resign, their entitlement to receive those options that have not been granted or issued because the relevant performance criteria has not been met, will lapse.

For those options that have been granted to the Participating Directors under the DIOP, upon termination, the Participating Directors will be entitled to retain those Options.

3.3 Terms of Participation in the DSIP

The following is a summary of the key terms on which the Participating Directors will participate in the DSIP.

Form of Award and Performance Criteria

It is proposed that the Participating Directors will receive the following Shares, on the Company achieving an annualised EBIT of AU\$10,000,000 calculated monthly from the projects that the Company participates in within the Performance Period:

- (a) 1,380,000 Shares to John Dickinson;
- (b) 1,380,000 Shares to Ryan Messer; and
- (c) 2,000,000 Shares to Justin Pettett.

Consequences of termination of appointment as director

The Participating Directors' appointment as a director of the Company may be terminated by the Company if they are in breach of their obligations as director. The Participating Directors may also resign as director of the Company.

Upon termination, the entitlement to receive Shares that have not been issued because the relevant performance criteria have not been met, will lapse.

For those Shares that have been granted to the Participating Directors under the DSIP, upon termination, the Participating Directors will be entitled to retain those Shares.

3.4 Shareholder Approvals Required – Chapter 2E of the Corporations Act and ASX Listing Rule 10.15A

Shareholder approval is required under Chapter 2E of the Corporations Act and ASX Listing Rule 10.14 for the issue of Securities to the Participating Directors because each of them is a director and each of them is therefore a related party of the Company.

For the purposes of sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.15A, the following information is provided to allow shareholders to assess the proposed grant of the options:

- (a) the maximum number of Securities (being the nature of the financial benefit being provided) to be granted to the Participating Directors is:
- (i) 1,380,000 Shares and 3,450,000 DIOP Options to John Dickinson;
 - (ii) 1,380,000 Shares and 3,450,000 DIOP Options to Ryan Messer;
 - (iii) 2,000,000 Shares and 5,000,000 DIOP Options to Justin Pettett;
- (b) the Securities will be granted for nil consideration on achievement of the performance criteria set out above in this Explanatory Statement. Accordingly no funds will be raised from the grant of the Securities and no loan will be provided by the Company to the Participating Directors in respect of the acquisition of the Securities;
- (c) the value of the DIOP Options and the pricing methodology is set out in Schedule 5 of this Explanatory Statement;
- (d) the value of the Shares to be granted cannot be determined with certainty as this will depend on the market price of Shares at the time of issue. However based on the average market price of Shares calculated over the 5 trading days prior to the date of this Notice, the Shares have a value of \$0.28 per Share;
- (e) the Participating Directors currently have an interest in the following securities in the Company;

	Shares	Options
John Dickinson	1,700,000	Nil
Ryan Messer	1,700,000	Nil
Justin Pettett	1,755,000	Nil

- (f) the Participating Directors currently receive the following remuneration and emoluments from the Company:
- (i) Mr Dickinson currently receives director's fees of \$60,000 per year plus superannuation in director's fees;
 - (ii) Mr Messer currently receives director's fees of \$60,000 per year plus superannuation; and
 - (iii) Mr Pettett currently receives director's fees of \$80,000 per year plus superannuation;

The Participating Directors have not received any other emoluments from the Company;

- (g) if the DIOP Options granted to the Participating Directors are exercised, a total of 11,900,000 Shares would be allotted and issued. This will increase the number of Shares on issue from

50,900,000 to 62,800,000 (assuming that no other options are exercised and no other Shares issued) with the effect that the shareholding of existing Shareholders would be as follows:

Director	Number of options to be issued	Issued Shares at the date of this Notice	Dilutionary effect if all options issued are exercised
John Dickinson	3,450,000	50,900,000	6.35%
Ryan Messer	3,450,000	50,900,000	6.35%
Justin Pettett	5,000,000	50,900,000	8.94%
Total effect if all Options are exercised	11,900,000	50,900,000	18.95%

The market price for Shares during the term of the options would normally determine whether or not the options are exercised. If, at any time any of the options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the options, there may be a perceived cost to the Company. Information on the trading history of the Shares on ASX in the past 12 months is set out above in paragraph 1.3 of this Explanatory Statement;

- (h) the DIOP Options are exercisable at 20 cents per option, on or before 30 June 2008 and the full terms and conditions of the DIOP Options are set out in Schedule 1;
- (i) the Shares to be issued are fully paid ordinary shares in the Company and shall rank pari passu with existing Shares;
- (j) the Securities will be granted to the Participating Directors no later than 3 years after the date of the meeting;
- (k) the primary purpose for the issue of the Securities under the DIOP and the DSIP is to provide a market-linked incentive component in the remuneration package for the Participating Directors and for the future performance by the Participating Directors in managing the operations and strategic direction of the Company.
- (l) in determining the performance criteria for each of the DIOP and the DSIP, and the number and type of the Securities to be awarded pursuant to the DIOP and the DSIP, the Board considered the market value of the performance targets that must be met before the Securities can be issued, the market price of the Shares and current market practice. In addition, the Board considers that the issue of Securities pursuant to the DIOP and DSIP as proposed (and set out in this Explanatory Statement) is reasonable given that the performance criteria will direct the Directors to specific performance targets for the Company, which aligns the interests of the Directors with those of shareholders;

- (m) the Directors believe that the grant of Securities pursuant to the DIOP and DSIP provides cost effective consideration to the Participating Directors for their ongoing commitment and contribution to the Company in their respective roles as Directors of the Company. Given this purpose, the Directors do not consider that there are any opportunity costs to the Company or benefits foregone by the Company in granting the Securities upon the terms proposed;
- (n) the Board acknowledges the grant of Securities to Mr Dickinson and Mr Messer is contrary to Recommendation 9.3 of the ASX Good Corporate Governance and Best Practice Recommendations. However, the Board considers the grant of Securities to Mr Dickinson and Mr Messer is reasonable in the circumstances, given that they both have significant experience in the oil and gas industry, and it is through their expertise, and contacts within the US oil and gas industry in which the Company operates, that will assist the Company in achieving its goals. The Board considers that the grant of Securities pursuant to the DIOP and DSIP aligns the interests of Mr Dickinson and Mr Messer with the interests of shareholders, whilst maintaining the Company's cash reserves;
- (o) as the DIOP and DSIP are new plans, no Securities (and no rights to acquire Securities) have been issued under either the DIOP or the DSIP;
- (p) as at the date of this Notice of Meeting no persons other than the Participating Directors are entitled to participate in either the DIOP or the DSIP;
- (q) details of any Securities actually issued to the Participating Directors under the DIOP and the DSIP will be published in each annual report of the Company relating to the period in which such securities have been issued, and that approval for the issue of Securities to the Participating Directors was obtained under ASX Listing Rule 10.14;
- (r) any additional persons referred to in ASX Listing Rule 10.14 who become entitled to participate in the DIOP and/or the DSIP after Resolutions 4, 5 and 6 are approved and who were not named in the Notice of Meeting will not participate in those plans until approval is obtained under ASX Listing Rule 10.14; and
- (s) each of Mr Dickinson, Mr Pettett and Mr Messer decline to make a recommendation to Shareholders in relation to Resolutions 4, 5 and 6 respectively due to their respective material personal interest in the outcome of those Resolutions. Mr Kathiravelu, who does not have a material interest in the outcome of any of Resolutions 4, 5 or 6, recommends that Shareholders vote in favour of Resolutions 4, 5 and 6. The Directors are not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 4, 5 and 6.

4. RESOLUTION 7 – ISSUE OF OPTIONS TO CRAIG SCEROLER

4.1 General

The Company is currently negotiating with Craig Sceroler for Craig to provide services to the Company for the management of the Company's operations in the US (**Sceroler Consultancy Agreement**). Under the proposed Sceroler Consultancy Agreement, the Company is considering paying a fee, together with the issue of up to 500,000 options exercisable at 20 cents each on or before 30 June 2008. As the Sceroler Consultancy Agreement has not been finalised as yet, the Company would like the flexibility to grant options, but will not necessarily grant all or any of them.

ASX Listing Rule 7.1 prohibits a listed company from issuing securities representing more than 15% of its issued capital in any 12 month period without obtaining shareholder approval.

Resolution 7 seeks approval for the issue of up to 500,000 Options to Craig Sceroler (or his nominee). If the resolution is approved then the issue of those options will not be counted in the Company's 15% capacity.

4.2 Technical Information Required by Listing Rule 7.1

The following information is provided pursuant to and in accordance with Listing Rule 7.3:

- (a) the maximum number of Options to be issued is 500,000;
- (b) the Options are to be issued in consideration for the provision of consultancy services to the Company pursuant to the Sceroler Consultancy Agreement and will be issued for no deemed cash consideration;
- (c) the Options will be exercisable at 20 cents each on or before 30 June 2008. The full terms and conditions of the Options are set out in Schedule 1;
- (d) the Options will be issued to Craig Sceroler (or his nominee) no later than 3 months (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) after the date of the Meeting, and it is anticipated that they will be issued as one allotment; and
- (e) no cash funds will be raised from the issue of the Options. Any funds received from the exercise of the options will be used as working capital for the Company.

5. RESOLUTION 8 – ISSUE OF OPTIONS TO JAMES STEWART

5.1 General

The Company is currently negotiating with James Stewart for James to provide operational and management services to the Company in relation to the Company's activities in the US pursuant to a proposed consultancy agreement (**Stewart Consultancy Agreement**). Under the Stewart Consultancy Agreement, a fee is proposed to be paid, together with the

issue of up to 250,000 Options exercisable at 20 cents each on or before 30 June 2008. As the Stewart Consultancy Agreement has not been finalised as yet, the Company would like the flexibility to grant the options but will not necessarily grant all or any of them.

ASX Listing Rule 7.1 prohibits a listed company from issuing securities representing more than 15% of its issued capital in any 12 month period without obtaining shareholder approval.

Resolution 8 seeks approval for the issue of up to 250,000 Options to James Stewart (or his nominee). If the resolution is approved then the issue of those options will not be counted in the Company's 15% capacity.

5.2 Technical Information Required by Listing Rule 7.1

The following information is provided pursuant to and in accordance with Listing Rule 7.3:

- (a) the maximum number of Options to be issued is 250,000;
- (b) the options are to be issued in consideration for the provision of consultancy services to the Company pursuant to the Stewart Consultancy Agreement and will be issued for no deemed cash consideration;
- (c) the Options will be exercisable at 20 cents each on or before 30 June 2008. The full terms and conditions of the Options are set out in Schedule 1;
- (d) the Options will be issued to James Stewart (or his nominee) no later than 3 months (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) after the date of the Meeting, and it is anticipated that they will be issued as one allotment; and
- (e) no cash funds will be raised from the issue of the Options. Any funds received from the exercise of the options will be used as working capital for the Company.

6. RESOLUTION 9 – ISSUE OF OPTIONS TO WAVE EXPLORATION GROUP LLC

6.1 General

Under the terms of a joint venture development agreement dated 15 May 2006, Wave Exploration Group LLC (**Wave Exploration**) and the Company agreed on the terms of a commercial relationship whereby Wave Exploration will provide the Company with introductions to participate in various 2D and 3D oil and gas prospects in the US, by funding the lease and option costs to secure the prospects. Under the terms of the joint venture development agreement the Company will receive 100 per cent of its funding capital back from third-party investors prior to the booking of a rig to drill the prospects. The Company will also share in 45 per cent of any cash profits, overrides or carried working interests for its seed-capital role in the project, with Wave Exploration receiving 55 per cent.

In consideration for the introductory services to be provided by Wave Exploration to the Company, the Company has agreed pursuant to the

joint venture development agreement to grant Wave Exploration 250,000 Options exercisable at 20 cents each on or before 30 June 2008.

ASX Listing Rule 7.1 prohibits a listed company from issuing securities representing more than 15% of its issued capital in any 12 month period without obtaining shareholder approval.

Resolution 9 seeks approval for the issue of 250,000 Options to Wave Exploration (or its nominee). If the resolution is approved then the issue of those options will not be counted in the Company's 15% capacity.

6.2 Technical Information Required by Listing Rule 7.1

The following information is provided pursuant to and in accordance with Listing Rule 7.3:

- (a) the total number of Options to be issued is 250,000;
- (b) the Options are to be issued as consideration for the introductory services provided by Wave Exploration to the Company pursuant to the joint venture development agreement and will be issued for no deemed cash consideration;
- (c) the Options will be exercisable at 20 cents each on or before 30 June 2008. The full terms and conditions of the Options are set out in Schedule 1;
- (d) the Options will be issued to Wave Exploration (or its nominee) no later than 3 months (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) after the date of the Meeting, and it is anticipated that they will be issued as one allotment; and
- (e) no cash funds will be raised from the issue of the Options. Any funds received from the exercise of the Options will be used as working capital for the Company.

7. RESOLUTION 10 – ISSUE OF OPTIONS TO DON ELLISON

7.1 General

The Company has agreed to the issue of 250,000 Options to Don Ellison as consideration for his consultancy services in relation to petroleum engineering in respect of the Company's projects on a case by case basis.

ASX Listing Rule 7.1 prohibits a listed company from issuing securities representing more than 15% of its issued capital in any 12 month period without obtaining shareholder approval.

Resolution 10 seeks approval for the issue of 250,000 Options to Don Ellison (or his nominee). If the resolution is approved then the issue of those options will not be counted in the Company's 15% capacity.

7.2 Technical Information Required by Listing Rule 7.1

The following information is provided pursuant to and in accordance with Listing Rule 7.3:

- (a) the total number of Options to be issued is 250,000;
- (b) the Options will be issued for no deemed cash consideration as consideration for the consultancy services to be provided by Don Ellison to the Company;
- (c) the Options will be exercisable at 20 cents each on or before 30 June 2008. The full terms and conditions of the Options are set out in Schedule 1;
- (d) the Options will be issued to Don Ellison (or his nominee) no later than 3 months (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) after the date of the Meeting, and it is anticipated that they will be issued as one allotment; and
- (e) no cash funds will be raised from the issue of the Options. Any funds received from the exercise of the options will be used as working capital for the Company.

8. RESOLUTION 11 – ISSUE OF OPTIONS TO BELLE OIL INC

8.1 General

The Company is currently negotiating an agreement in the nature of a joint venture with Belle Oil Inc (**Belle Oil**). The Company is considering offering to Belle Oil 250,000 options as consideration for future anticipated operational services provided by Belle Oil as follows:

- (a) it is proposed that the 250,000 Options be granted and exercisable on the following conditions:
 - (i) 166,666 Options on 6 wells being spudded in the existing Belle Oil operated fields that the Company has an interest in before 31 December 2006; and
 - (ii) 27,778 Options to be issued on the spudding of each successive well up to a total of 9 development/step out wells in the existing Belle operated fields that Pryme has an interest in before 31 December 2006.

The Options will not be exercisable unless 4 of the 9 wells have been spudded in the North West Rogers Field wells.

As the agreement with Belle Oil has not been finalised, the Company may not grant any or all of the Options. The purpose for seeking shareholder approval to the issue of the Options to Belle Oil, is to give the Company the flexibility to do so, should the negotiations go well.

As noted above in this Explanatory Statement Resolution 11 seeks shareholder approval for the purposes of ASX Listing Rule 7.1. ASX Listing Rule 7.1 is summarised elsewhere in this Explanatory Statement. If the Resolution is approved then the issue of those options will not be counted in the Company's 15% capacity.

8.2 Technical Information Required by Listing Rule 7.1

The following information is provided pursuant to and in accordance with Listing Rule 7.3:

- (a) the maximum number of Options to be issued is 250,000;
- (b) the Options will be issued for no deemed cash consideration;
- (c) the Options will be exercisable at 20 cents each on or before 30 June 2008. The full terms and conditions of the Options are set out in Schedule 1;
- (d) the Options will be issued to Belle Oil Inc no later than 3 months (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) after the date of the meeting, and it is anticipated that they will be issued as one allotment; and
- (e) no cash funds will be raised from the issue of the Options. Any funds received from the exercise of the options will be used as working capital for the Company.

9. RESOLUTION 12 – SHARE PLACEMENT

9.1 General

Resolution 12 seeks Shareholder approval for the allotment and issue of 15,000,000 Shares at an issue price of not less than 80% of the average market price for Shares, calculated on the basis of the 5 trading days prior to issue or, if there is a prospectus relating to the issue, calculated over the last 5 days on which sales in the Shares were recorded before the date the prospectus was signed, together with 1 free attaching Placement Option for every 2 Shares issued (**Placement**).

After payment of the costs of the Placement, the funds will be used to fund the ongoing 3D seismic costs in the south central Louisiana project, option and lease costs to secure prospects in the Wave Exploration projects and for general working capital.

The effect of Resolution 12 will be to allow the Directors to issue the Shares and Placement Options pursuant to the Placement during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's annual 15% placement capacity.

It is intended that the Placement will be made pursuant to a prospectus or an offer information statement, and offered to investors (including the general public).

9.2 Technical Information Required by ASX Listing Rule 7.3

The following information is provided in relation to the Placement pursuant to and in accordance with Listing Rule 7.3:

- (a) the maximum number of Shares to be issued is 15,000,000; the maximum number of Placement Options to be issued is 7,500,000 on the basis of 1 Placement Option for every 2 Shares issued;

- (b) the Shares will each be issued at not less than 80% of the average market price for Shares calculated for the 5 trading days prior to the issue or, if there is a prospectus relating to the issue, calculated over the last 5 days on which sales in the Shares were recorded before the date the prospectus was signed;
- (c) the Shares will rank equally with the Company's current issued Shares;
- (d) the Shares and Placement Options will be issued no later than three (3) months after the date of the General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (e) the Directors will determine to whom the Shares (and attaching Placement Options) will be issued but these persons will not be related parties of the Company;
- (f) the Placement Options to be issued pursuant to Resolution 12 will be exercisable at any time on or before 30th June 2008. The exercise price for each Placement Option will be not less than 80% of the average market price for Shares calculated for the 5 trading days prior to the issue or, if there is a prospectus relating to the issue, calculated over the last 5 days on which sales in the Shares were recorded before the date the prospectus was signed. The Placement Options will be otherwise exercisable on the terms and conditions set out in Schedule 1;
- (g) the Shares are fully paid ordinary shares in the capital of the Company and will rank equally with the Company's current issued Shares; and
- (h) the Company intends to use the funds raised from the Placement for the purposes set out in paragraph 9.1 above, budgeted as follows:

Ongoing 3D seismic costs in south central Louisiana	\$2,250,000
Wave Exploration Group JV Prospects	\$3,000,000
Total	\$5,250,000

GLOSSARY

ASX means Australian Stock Exchange Limited.

ASX Listing Rules or **Listing Rules** means the Listing Rules of the ASX.

Company means Pryme Oil and Gas Ltd (ABN 75 117 387 354).

Corporations Act means the Corporations Act 2001 (Cth).

DIOP Option means an option granted under the Directors' Incentive Option Plan (described in section 2 of the Explanatory Statement) to acquire a Share, on the terms and conditions set out in the Explanatory Statement and Schedule 1.

Directors means the current directors of the Company.

EBIT means earnings before interest and tax.

Explanatory Statement means the Explanatory Statement to this Notice of Meeting.

FCCL means First Capital Corporate Limited (ABN 37 112 297 953).

Meeting means the meeting convened by the Notice.

Notice or **Notice of Meeting** means this notice of meeting including the Explanatory Statement.

Option means an option to acquire a Share on the terms and conditions set out in the Explanatory Statement and Schedule 1.

Placement Option means an option to acquire a Share on the terms and conditions set out in Schedule 1.

Securities mean Shares and options to acquire a Share.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of Shares.

SCHEDULE 1

Terms and conditions of options

The options entitle the holder to subscribe for ordinary fully paid shares in the capital of the Company on the following terms and conditions:

- (a) The Options will expire at 5.00pm Australian Eastern Standard Time on 30 June 2008 (**Expiry Date**). Any Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
 - (b) Each Option gives the Option holder the right to subscribe for one Share. To obtain the right given by each Option, the Option holder must exercise the Options in accordance with the terms and conditions of the Options.
 - (c) The exercise price payable upon exercise of each Option will be \$0.20 Australian (**Exercise Price**).
 - (d) All or part of the Options may be exercised at any time prior to the Expiry Date, from time to time.
 - (e) An Option holder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised;
- (Exercise Notice).**
- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
 - (g) Within 5 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
 - (h) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
 - (i) The Company will apply for quotation of the Options on ASX.
 - (j) The Company will also apply for quotation by ASX of all Shares allotted pursuant to the exercise of Options within 10 Business Days after the date of allotment of those Shares.
 - (k) In the event of any reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of the Company before the expiry of any Options, the number of Options to which an Option holder is entitled or the Exercise Price of the Options or both will be reconstructed (as appropriate) in accordance with the Listing Rules.

- (l) An Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Option can be exercised.

- (m) 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. However, the Company will ensure that for the purposes of the proposed issue notice of the new issue will be given to optionholders at least ten (10) business days before the record date. This will give optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

Summary of Pryme Oil and Gas Ltd's Directors' Incentive Option Plan

- (a) Under Pryme Oil and Gas Ltd's Directors Incentive Option Plan (**DIOP**) the Board may, subject to obtaining shareholder approval required by law, offer to grant options (**Plan Options**) to a director of the Company or any associated company at the Board's discretion (**Eligible Director**) having regard to the Eligible Director's position, length of service, record of employment, potential contribution to the growth and profitability of the Company or an associated company and any other matter which the Board considers relevant.
- (b) Following receipt of the offer, an Eligible Director may apply for Plan Options up to the number specified in the offer. No consideration is payable by an Eligible Director to the Company in respect of the grant of Plan Options.
- (c) The exercise price payable on the exercise of a Plan Option shall be determined by the Board, in its absolute discretion, but shall not be less than 20 cents.
- (d) The exercise period of each Plan Option shall be determined by the Board in its absolute discretion (**Exercise Period**). However, a Plan Option cannot be exercised after the fourth anniversary of the date on which it is granted (**Grant Date**).
- (e) Notwithstanding paragraph (d), all Plan Options may be exercised:
- (i) during a takeover period (as that term is defined in section 624 of the Corporations Act);
 - (ii) at any time after a change of shareholding has occurred which gives a person or an associated group of persons the ability in general meeting to replace all or a majority of the Board;
 - (iii) at any time after the announcement of a proposed capital reconstruction in relation to the Company, in the Board's absolute discretion following the occurrence announcement by the Company of an event that in the opinion of the Board is likely to lead to the Company being removed from the official list of ASX; and
 - (iv) in the Board's absolute discretion within 12 months in the event of the cessation of the Eligible Director's (in respect of whom Plan Options were granted) employment with a group Company as a result of the Eligible Director's position becoming redundant.
- (f) All Shares issued upon the exercise of the Plan Options will upon the allotment rank *pari passu* with all existing Shares in the capital of the Company. If the Shares are quoted, the Company will apply for quotation by the ASX of all Shares allotted pursuant to the exercise of the Plan Options.
- (g) The Board may determine in its discretion whether Plan Options will be quoted on ASX. If the Board determines that Plan Options are to be

quoted on ASX, the Company will apply for official quotation by ASX of the Plan Options.

- (h) Plan Options will lapse on the fourth anniversary of their grant date.
- (i) Subject to written approval by the Directors, a Plan Option may only be transferred by the holder of a Plan Option if the transfer is to the Director for whose benefit that Plan Option was originally granted.
- (j) In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, then the number of Plan Options to which each holder of Plan Options is entitled or the exercise price of the Plan Options or both will be reconstructed in the manner required by the ASX Listing Rules.
- (k) The holder of a Plan Option will only be permitted to participate in a pro rata issue to the holders of Shares on the prior exercise of the Plan Option. The Company must notify the holder of a Plan Option of the proposed issue at least 10 business days before the record date to determine entitlements to the pro rata issue.
- (l) If the Company makes a bonus issue, the number of Shares over which a Plan Option is exercisable will not be increased by the number of Shares which the holder of the Plan Option would have received if the Plan Option had been exercised before the record date for the bonus issue.
- (m) Subject to the ASX Listing Rules, the Directors may from time to time alter, delete or add to the provisions of the rules by an instrument in writing without obtaining the consent of Shareholders of the Company. Notwithstanding the foregoing, the Directors may only amend provisions of the rules, or any restrictions or other conditions relating to any Plan Option granted pursuant to the DIOP with retrospective effect after obtaining the prior approval of at least 50% of the holders of Plan Options who are affected by the retrospective amendment in relation to Plan Options previously granted to them.

SCHEDULE 3

Summary of Pryme Oil and Gas Ltd's Directors' Share Incentive Plan

- (a) The Plan is open to directors of Pryme Oil and Gas Ltd (**Company**) or its subsidiaries who are determined by the Board to be eligible to participate in the Plan.
- (b) Shares may be issued under the Plan.
- (c) Participants will not be liable to make any payment for the Shares provided to them.
- (d) The maximum number of Shares that may be provided to a Participant will be determined by the Board in its absolute discretion.
- (e) The Performance Period will be determined by the Board in its absolute discretion.
- (f) The Performance Criteria for each Performance Period will be determined by the Board in its absolute discretion prior to the commencement of the Performance Period.
- (g) If a Participant ceases employment with the Group before Shares are provided to them, that Participant's right to be provided Shares (either in whole or in part) lapses immediately.
- (h) If the Company makes a bonus issue of securities, the number of Shares to which a Participant may be entitled at the expiration of a Performance Period will not be increased by the number of Shares the Participant would have received if Shares had been issued before the record date for the bonus issue.
- (i) If the Company makes an offer of securities pro-rata to all or substantially all holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) for a subscription price which is less than the market price then the Board must endeavour to ensure that the pro-rata issue is taken into account in providing Shares to Participants at the expiration of the relevant Performance Period in a manner which is fair and equitable to the Participants.
- (j) Each Share provided under the Plan confers on the holder the same right to participate in any new issues by the Company as that conferred by each other Share.
- (k) If any reconstruction of the issued ordinary capital of the Company occurs, the number of Shares to which the Participant may be entitled will be adjusted to ensure that the Participant does not receive a benefit that holders of ordinary securities do not receive.
- (l) The Board may, in its complete discretion, determine whether to provide to a Participant all or part of the Shares and any Adjustment Shares, having regard to performance against the Performance Criteria if:
 - (i) a takeover bid is made for the Company and the bidder has or acquires a relevant interest in more than 20% of the voting shares in the Company; or
 - (ii) in the reasonable opinion of the Board, another transaction is proposed under which control of the Company is likely to pass from the then existing shareholders.

- (m) Shares provided to Participants will be issued directly to them by the Company.
- (n) Unless otherwise determined by the Board, Shares provided under the Plan rank equally with other Shares on issue at the time those Shares are provided and carry the same rights and entitlements as those conferred by other Shares.
- (o) The Plan will be administered by or on behalf of the Board in accordance with the Rules. The Board may use or delegate any power or discretion conferred by the Rules in the interests of, or for the benefit of, the Company. Under the Rules powers of the Board are exercisable by the Company's Nomination and Remuneration Committee or any other committee nominated by the Board in its place.
- (p) Subject to the Listing Rules, the Board may amend the provisions of the Rules at any time. However, no amendment to the provisions of the Rules may reduce the rights of any Participant in respect of Shares provided under the Plan unless the amendment was introduced primarily to comply with or conform to any present or future laws or the Listing Rules, to correct a manifest mistake, or to reduce tax payable by either the Company or of Participants generally.
- (q) The Board will ensure that all awards of Shares under the Plan are subject to shareholder approval.

SCHEDULE 4

Valuation of FCCL Options

The Company commissioned an independent valuation of the FCCL Options to be issued to FCCL pursuant to Resolution 1 (**FCCL Options**).

Using the theoretical Black & Scholes option model and based on the assumptions set out below, the FCCL Options were ascribed a value range, as follows:

	FCCL Options		
Indicative value per option (cents)	11.62 cents	14.09 cents	16.48 cents
Assumptions(1):			
Valuation date	9 June 2006	9 June 2006	9 June 2006
Share price	27 cents	27 cents	27 cents
Exercise price	20 cents	20 cents	20 cents
Expiry date	20 June 2008	30 June 2008	30 June 2008
Volatility	50%	75%	100%
Risk free interest rate	5.695%	5.695%	5.695%

Note (1): The valuation ranges noted above are not necessarily the market prices that the FCCL Options could be traded at and it is not automatically the market prices for taxation purposes.

In addition, in valuing the FCCL Options, the vesting conditions (noted in the Explanatory Statement) were taken into account, and no discount was applied.

SCHEDULE 5

Valuation of DIOP Options

The Company commissioned an independent valuation of the DIOP Options to be issued to the Participating Directors pursuant to Resolutions 4, 5 and 6.

Using the theoretical Black & Scholes option model and based on the assumptions set out below, the DIOP Options were ascribed a value range, as follows:

Indicative value per option (cents)	DIOP Options		
	14.75 cents	17.84 cents	20.53 cents
Assumptions(1):			
Valuation date	9 June 2006	9 June 2006	9 June 2006
Share price	27 cents	27 cents	27 cents
Exercise price	20 cents	20 cents	20 cents
Expiry date	20 June 2008	30 June 2008	30 June 2008
Volatility	50%	75%	100%
Risk free interest rate	5.695%	5.695%	5.695%

Note (1) – In addition, the above valuation takes into account the Performance Period, the performance criteria, and the consequences of termination of a director's appointment as director, as described in the Explanatory Statement. The valuation ranges noted above are not necessarily the market prices that the FCCL Options could be traded at and it is not automatically the market prices for taxation purposes.

In addition, under A-IFRS accounting standard, Share Based Payments no discount is applied to non-market based conditions. The Company will need to estimate at the date of grant the percentage possibility of each vesting condition being met and account for a fair value of the options that it believes will meet the vesting conditions in each year.

**PROXY FORM
APPOINTMENT OF PROXY
PRYME OIL AND GAS LTD ABN 75 117 387 354**

Appointment of Proxy
Pryme Oil and Gas Ltd ABN 75 117 387 354

I/We

being a Member of Pryme Oil and Gas Ltd entitled to attend and vote at the General Meeting, hereby

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the General Meeting to be held at the Brisbane Club, 241 Adelaide Street Brisbane Queensland on the 20th of July 2006 at 11.00am (EST) and at any adjournment thereof.

Voting on Business of the General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Issue of options to First Capital Corporate Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Issue of options under the DIOP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Issue of Shares under the DSIP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Issue of Securities to John Dickinson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Issue of Securities to Justin Pettett	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Issue of Securities to Ryan Messer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Issue of options to Craig Sceroler	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Issue of options to James Stewart	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Issue of options to Wave Exploration Group LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Issue of options to Don Ellison	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 11	Issue of options to Belle Oil Inc	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 12	Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In relation to Resolutions 1 through 12, if the Chairman is to be your proxy and you do **not** wish to direct your proxy how to vote on this Resolution, please place a mark in this box

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of the interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the meeting will not cast your votes on Resolutions 1 through 12 and your votes will not be counted in computing the required majority if a poll is called on this Resolution. The Chairman intends to vote in favour of this Resolution.

YOU MUST EITHER MARK THE BOXES DIRECTING YOUR PROXY HOW TO VOTE OR MARK THE BOX INDICATING THAT YOU DO NOT WISH TO DIRECT YOUR PROXY HOW TO VOTE, OTHERWISE THIS APPOINTMENT OF PROXY FORM IN RELATION TO THE RESOLUTION WILL BE DISREGARDED.

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____%

Signed this _____ day of _____ 2006

By:

Individuals and joint holders Companies (affix common seal if appropriate)

PRYME OIL AND GAS LTD
ABN 75 117 387 354

Instructions for Completing 'Appointment of Proxy' Form

1. A member entitled to attend and vote at a meeting is entitled to appoint not more than two proxies to attend and vote on their behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
2. A duly appointed proxy need not be a member of the Company. In the case of joint holders, all must sign.
3. Corporate shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
 - 2 directors of the company;
 - a director and a company secretary of the company; or
 - for a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in Section 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

4. Completion of a Proxy Form will not prevent individual shareholders from attending the Meeting in person if they wish. Where a shareholder completes and lodges a valid proxy form and attends the Meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the Meeting.
5. Where a Proxy Form or form of appointment of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged in like manner as this proxy.