


2010 ANNUAL REPORT

Pryme's Mission

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

Broadly, the Pryme strategy is to:

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

Why the USA?

Profitability

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

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

By operating in the U.S., Pryme is well-positioned to take advantage of the realities of today's high global energy demand, resulting ultimately in higher oil and gas prices.

Resources

Petroleum resources available for development in the U.S. and Canada fall into three general categories:

- high risk "exploratory" or "wildcat" targets;
- shallow to intermediate targets (drilled to depths of approximately 6,000 feet) generated through regional sub surface mapping of existing well logs and reservoirs together with 2D and 3D seismic data; and
- "engineering plays" with little reservoir risk in such sub-categories as lower-permeability sandstones, coal bed methane, gassy organic shales, and "dead" oil in place.

Opportunities in these categories are relatively widespread in North America. However, they all require specialised knowledge of the earth sciences, drilling, well completions and production operations. Pryme has extensive relationships within the community of U.S. oil and gas operators and Pryme's "deal flow" comprises opportunities in the above categories. Given the risk and cost variables among these classifications, the Company can take advantage of each of them when market prices make this possible.

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

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Glossary

Bbls	Barrels of oil
Bbls/day	Barrels (of oil) per day
Bbls/month	Barrels (of oil) per month
Bcf	Billion Cubic Feet
Bcfe	Billion Cubic Feet equivalent
BOE	Barrels of Oil Equivalent
Btu	British thermal unit (BTU or Btu) is a unit of energy used in North America and is defined as the amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit
GJ	A Gigajoule is a unit of energy
Mcf	Thousand Cubic Feet
MMcf	Million Cubic Feet
MMcfd	Million Cubic Feet of Natural Gas per Day
MMBtu	Represents one million (1,000,000) Btu
NRI	Net Revenue Interest
Tcf	Trillion Cubic Feet
Tcfe	Trillion Cubic Feet equivalent
WI	Working Interest
3.28 feet	Equals 1 metre

Chairman's Report

Dear Shareholder,

2010 was a pivotal year for Pryme.

With the commencement of deep exploration on the 20,000 acre Turner Bayou prospect in Louisiana, the Company is starting to unlock the great potential of this project. Production has been established from the Austin Chalk formation and significant shows have been encountered in the Wilcox formation and the deeper Eagle Ford shale formation. We are confident that continuing exploration of the prospect will demonstrate extensive coverage of these formations and add substantial value to the Company. From this it is clear that the Turner Bayou project has the potential to host a large number of new discoveries.

Our first deep Turner Bayou well, the 19,000 feet (total measured depth) Deshotels 20-H No.1, while encountering a number of mechanical difficulties in drilling and completion, has provided a picture of productive geology above and below the targeted Austin Chalk formation as well as providing a good understanding of the production potential of the Austin Chalk itself. We will be drilling more Austin Chalk wells during 2011 and, with the benefit of our learning from the Deshotels 20-H No.1, are looking forward to a substantial increase in oil production.

Progress on Pryme's Catahoula Lake project was slowed during the year as a result of the failure of our partner, Tridimension Energy. However, the introduction of a new and more substantial partner into the project, Sanchez Oil and Gas, should lead to better progress in 2011. In the meantime, Pryme drilled one successful well on Catahoula Lake during 2010 and in 2011 we intend to workover several existing wells and drill at least one new well on leases which are 100% owned by our 50% subsidiary, Pryme Lake Exploration.

Our other projects, the Raven gas project and the Four Rivers and LaSalle Parish oil projects, generally performed to expectation through 2010.

During 2010 Pryme conducted two capital raisings. These were well supported and provided sufficient capital to allow the Company to execute its plans while minimizing dilution of existing shareholders.

Pryme's small executive team functioned efficiently and achieved much during the year. Their efforts have provided the platform for the transformation of the Company from a junior oil and gas player to a sustainable oil and gas explorer and producer. I wish to record my appreciation of their efforts throughout 2010.

We are looking forward to a rewarding year and appreciate the continued support of shareholders, staff, joint venture partners and suppliers.

George Lloyd
Chairman

Managing Director's Report 2010

Dear Shareholder,

The Turner Bayou project has been Pryme's flagship project since listing. Since acquiring the acreage we have completed a 3D seismic survey covering 50,000 acres, we have tested certain shallow anomalies and we have carried out detailed geophysical interpretation of the seismic survey results. In 2010, the Company drilled the first deep well into the portion of the project area that overlies the Austin Chalk formation, this area is known as the Turner Bayou Chalk project. This was a transformational event for your Company.

The Deshotels 20H No.1 well was drilled to a vertical depth of 16,400 feet and intersected the Wilcox formation, the targeted Austin Chalk formation and, beneath that at a depth of 16,100 feet, the Eagle Ford shale. Strong hydrocarbon shows were encountered in both the Wilcox and the Eagle Ford and the intersection of the Austin Chalk was as expected from our seismic interpretation. Horizontal drilling to test the Austin Chalk formation kicked off at a depth of 14,710 feet and intersected the top of the Austin Chalk at 15,330 feet from which a 3,755 foot long lateral well was drilled. The lateral encountered 12 significant oil bearing fracture zones. While drilling the lateral, oil was being produced over the shakers on the drill rig and a natural gas flare was continuously burning at heights up to 60 feet.

The geological results from this well are extremely positive demonstrating the potential for commercial production of oil and natural gas from at least three zones and setting the scene for a substantial oil field development involving the drilling of many wells over a number of years. The initial priority for development is the Austin Chalk, whereby we expect to drill as many as 30 Austin Chalk wells in the coming years throughout our acreage. The second Austin Chalk well is scheduled to spud in May and the third before the end of 2011. The Wilcox and Eagle Ford formations will also be tested over time. The Eagle Ford is particularly interesting as its counterpart in South Texas is proving to be highly productive; it is generating very high levels of drilling activity and commanding extremely high prices for leasing of acreage.

We encountered a number of mechanical problems in the drilling of the Deshotels 20H No.1 well which resulted in delays, cost overruns and production at less than expected levels. Encountering such problems is part of the learning process associated with drilling a technically challenging well in a location and a part of the formation which have not previously been tested in this way. Whilst the problems have been frustrating, they have been addressed with a remediation plan for the Deshotels 20-H No.1 well being put in place and the incorporation of the lessons learned into the design of the next well to be drilled in the project.

In addition to the drilling of the first deep Turner Bayou Chalk project well, Pryme passed another significant milestone in 2010 with the refurbishment of its barge mounted drill rig and drilling of the first well on Catahoula Lake in over a decade. The well, the State Lease 502 No.1, was a success and is presently producing oil steadily at around 20 Bbls/day. This accomplishment is a testament to the determination and hard work of our field hands. As a result, 2010 oil production exceeded that of 2009 and we added new reserves well in excess of depletion.

We have now established a springboard for expansion and value growth during 2011 as Catahoula Lake and Turner Bayou come to life.

Production

Pryme now generates revenue from four projects in central Louisiana in the United States of America; they are the LaSalle Parish, Raven, Four Rivers and Catahoula Lake projects. Production from the Deshotels 20-H No.1 will boost Pryme's 2011 revenue.

The LaSalle Parish project, in LaSalle Parish Louisiana, has been a stable and reliable oil producer for the Company since Pryme was listed in April 2006. Oil production in 2010 was lower than in 2009 due mainly to natural decline. The project has several undeveloped locations which are worthy of drilling. However, we regard it as a mature project.

The Raven project, which is located in Northern Louisiana, produces natural gas and condensate; it is operated by Nelson Energy of Shreveport Louisiana. Raven was first drilled in 2007 and now comprises 3 wells producing from the Cotton Valley formation. The 2010 production from Raven was lower than in 2009 due to natural decline. Raven is our only natural gas project and has suffered from low prices throughout the year. Whilst Raven has significant additional exploration and production potential, we regard it as a fairly mature asset.

The Four Rivers project extends from Winn, Concordia and Catahoula Parishes in Louisiana to Adams, Jefferson and Wilkinson Counties in Mississippi. Additional wells were brought online during 2010. However, further exploration ended in March as a result of the project's operator filing for Chapter 11 bankruptcy. Oil production in 2010 exceeded that of 2009. The Four Rivers wells are drilled into the same geological structure as our LaSalle Parish project and should produce at a steady rate for many years to come. We now regard Four Rivers as a mature project as our focus for 2011 shifts to Catahoula Lake and Turner Bayou.

Catahoula Lake is a steady producer of oil for Pryme and is described in more detail on page 6.

Managing Director's Report 2010

Exploration

The main exploration activities for 2010 were the inaugural drilling in Catahoula Lake and the deep test in Turner Bayou.

The 2011 exploration program will primarily focus on additional deep drilling in Turner Bayou to exploit the Austin Chalk and further evaluate the deeper Eagle Ford objective. Workovers are scheduled for several Catahoula Lake wells during the year together with the drilling of at least one new prospect using a land rig. In addition, a full geological review of Catahoula Lake will be undertaken in readiness for the 2012 drilling season.

Catahoula Lake

Catahoula Lake is approximately 30,000 acres in area and, because of the need for specialised exploration equipment, is relatively unexplored. Pryme Lake Exploration ('PLX') which is 50% owned by Pryme, holds various working interests, ranging from 50% through to 100%, in acreage located within Catahoula Lake and its surrounds. In addition, PLX has an interest in the only equipment available to drill and service wells on Catahoula Lake. This provides Pryme with a significant competitive advantage over other explorers over the entire area of the lake almost all of which is prospective.

In May 2010, PLX purchased the Lamar property in Catahoula Lake. The Lamar assets comprised 5 wells, 3 of which were producing, along with extensive pipeline and header systems on the lake feeding a large onshore production facility.

During 2010, PLX took control of the Catahoula Lake operations following the bankruptcy of the project's operator, Axis Onshore. We successfully refurbished the barge drilling rig and drilled the State Lease 502 No.1 well on PLX 100% held acreage. This well was a success and was put into production quickly due to the extensive production infrastructure which PLX owns.

The 2011 program for Catahoula Lake includes the workover of existing wells on the lake and the drilling of a new prospect using a land based rig. The program has the potential to more than double current oil production levels, to over 100 Bbls/day (gross), and to add valuable reserves to the bottom line for a very low investment.

A full geological review of the lake is expected to be undertaken during 2011 in readiness for the drilling season in 2012. This will define the scope of the project and enable the prioritisation of 2012 exploration targets.

Turner Bayou

Turner Bayou is one of Pryme's high impact projects. Pryme has a 52% working interest (39% NRI) in the project comprising 50,000 acres (80 square miles) which have been covered by Pryme's proprietary 3D seismic survey shot in 2007. Primary targets are contained within five prospective formations ranging in depth from the Frio formation at 3,000 feet to the Tuscaloosa formation at 16,200 feet.

In April 2010, Pryme farmed out a 12% interest in the Turner Bayou Chalk project, which is located in the southern half of the Turner Bayou seismic survey, to Nelson Energy of Shreveport, Louisiana and associates. Under the terms of the farmout agreement, Pryme received a cash payment of US$500,000 and a free carry on the first two wells to be drilled within the project area. The carry consists of a 25% back in after payout on the initial well and a 25% carry through to production on the second well proportionate to Pryme's interest being farmed out (4% net carry to Pryme). The parties will bear the costs of the third and subsequent wells in proportion to their working interests. As a result of the farmout, Pryme's interest in the Turner Bayou Chalk project is 40% (30% NRI).

As noted above, the first well drilled, the Deshotels 20-H No.1, has provided a wealth of valuable geological information even though we have suffered some mechanical issues during its drilling and completion. Notwithstanding these mechanical issues, the prospectivity of the project has been confirmed by the drilling results and news of our results has stimulated extensive leasing activity, including oil and gas exploration majors such as Anadarko Petroleum, in the areas surrounding Turner Bayou.

We are committed to the continued drilling campaign at Turner Bayou and expect the second well to spud in May of this year.

Financial

Pryme's cash position as at 31 December 2010 was approximately A$2.6million (A$5.5 million: 2009.)

Pryme incurred a loss of A$3.1 million (A$4.27 million: 2009) for the 2010 year which is an improvement on the 2009 year. The loss included non-cash items of $2.9 million for depletion, amortization and depreciation, investments written off and other items.

Pryme's revenue for 2010 was A$3.2 million (A$2.0 million: 2009) an improvement of 56% on the prior year reflecting both increased production volumes and higher oil and gas prices. Overall production of oil and gas in 2010 exceeded that for 2009. As the Deshotels 20-H No.1 comes into

Managing Director's Report 2010

production, even though current production rates are lower than anticipated on a per well basis for this project, the revenue generated is expected to almost double the Company's annual income.

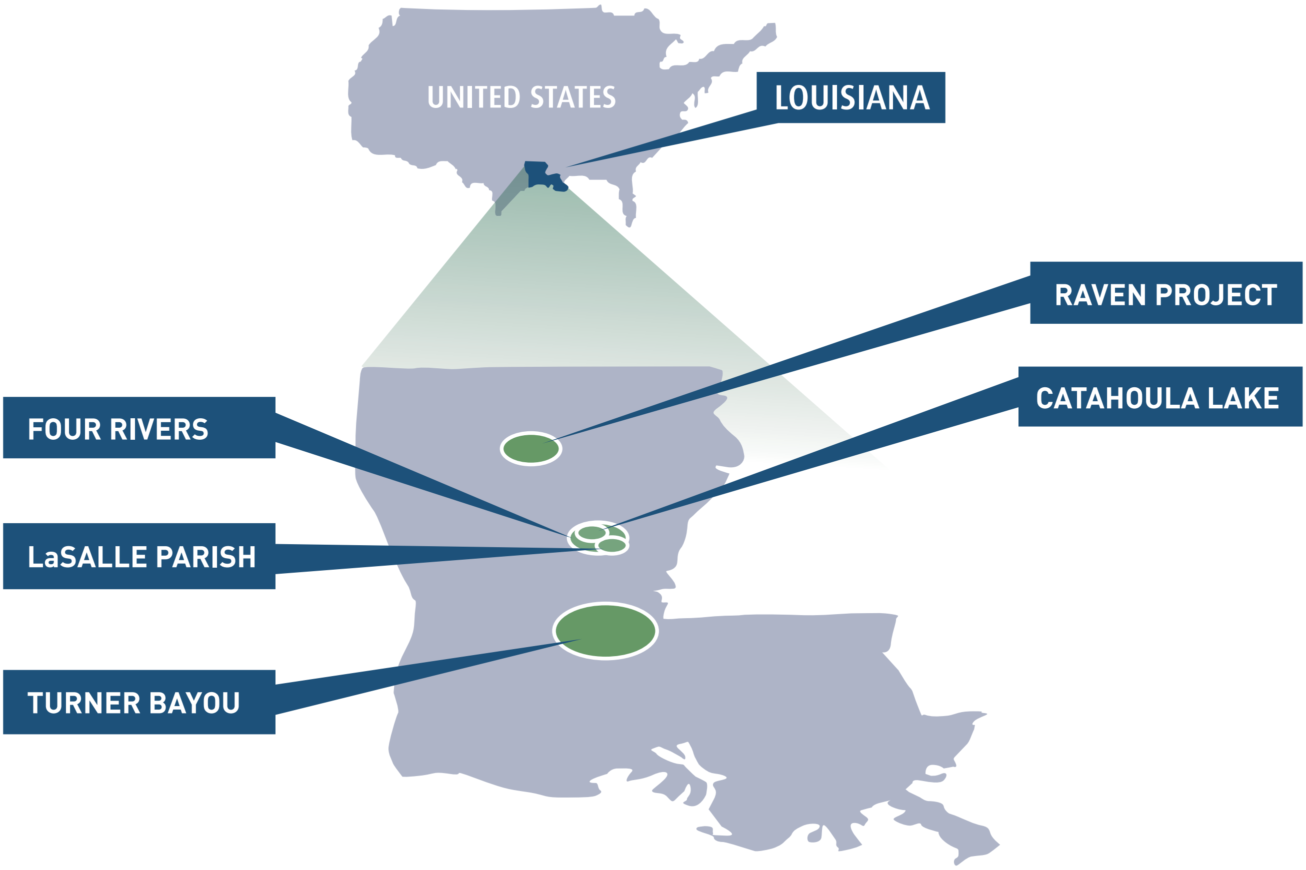
I would like to thank our management team and the board for their commitment and efforts during 2010. Management team members Ryan Messer (COO) and Sandra Gaffney (CFO) have both made a huge contribution and I also wish to thank George Lloyd, Chairman, and Greg Short, non-executive director, for their wisdom and guidance throughout the year.

Most importantly I wish to thank our shareholders for their continued support during the year and I welcome all new shareholders to Pryme. I expect 2011 to be a very exciting year on the back of our exploration success in Turner Bayou. As always your Company is committed to operating with integrity and professionalism and we are working hard to build shareholder wealth.

I look forward to keeping you informed of our progress in the year ahead.

Justin Pettett
Managing Director

Projects



Annual Sales Report (net to Pryme)

Project	Calendar Year 2010		Calendar Year 2009	
	Natural Gas (Mcf)	Oil/Condensate (Bbls)	Natural Gas (Mcf)	Oil/Condensate (Bbls)
LaSalle Parish	0	9,661	0	12,105
Four Rivers	0	10,732	0	4,322
Raven	86,902	1,694	110,008	2,188
Catahoula Lake	0	5,293	0	0
Turner Bayou	Flaring	270	0	0
Total	86,902	27,650	110,008	18,615
Total BOE*	**41,896**		**36,649**	

** Barrels of Oil Equivalent (BOE) is calculated at a ratio of 6.1Mcf of natural gas per barrel of oil*

Projects

PRODUCTION

LaSalle Parish Project (8%-21.5% Interest)

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

Pryme's share of oil sales for the year was 9,661 barrels (27 average net Bbls/day to Pryme), a 19% decline over the previous year. The decrease was attributable to normal decline as well as the slowing of production due to low oil prices in the early part of the year and various wells requiring workovers during the course of the year. No new wells were added during 2010. Realised oil prices for 2010 averaged US$78.75 per barrel.

The project has several undeveloped locations which are worthy of drilling. However, we regard it as a mature project.

Raven Project (35% Interest / 25.38% NRI)

The Raven project covers mineral leases in the prolific Cotton Valley and Hosston natural gas trends in Lincoln Parish, Louisiana. The project lies within a natural gas fairway of Cotton Valley marine bars which represent the development targets.

Pryme's share of natural gas and condensate sales from three producing wells for the year was 86,902 Mcf (average 238 Mcf/day net to Pryme) of natural gas and 1,694 barrels (average 5 Bbls/day net to Pryme) of condensate, a 21% decrease over the previous year. The decrease was attributable to natural production decline and the assignment of an interest to Amelia Resources as described below.

A 5% WI, out of the Company's total working interest of 40%, and overriding royalty interests in the Raven project were assigned to Amelia Resources LLC during the year in settlement of outstanding claims in the amount of US$167,500.

Realised natural gas and condensate prices for 2010 averaged US$4.02 per Mcf and US$73.96 per barrel respectively.

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

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

Pryme's share of oil sales for the year was 10,732 barrels (30 average net Bbls/day to Pryme), more than double the production of the previous year. The increase was attributable to additional wells drilled towards the end of 2009 coming online in early 2010.

Receipts from sales throughout the year were temporarily impacted due to the bankruptcy of the operator of the Four Rivers project, Axis Onshore LP the operating arm of Tridimension Energy LLC. The transfer of operatorship to Sanchez Oil and Gas Corporation, who purchased the assets of Tridimension, effective 1 November 2010, has resulted in operations, production and revenue returning to normal.

Realised oil prices for 2010 averaged US$78.38 per barrel.

Catahoula Lake Project (25% Interest / 20.25% NRI)

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

Pryme Oil and Gas Limited and Future Corporation Australia Limited each own 50% of Pryme Lake Exploration ('PLX') which is a participant in the Catahoula Lake joint venture and also owns, in its own right, a 100% WI in wells, production facilities and acreage located within Catahoula Lake and its surrounds.

Projects

Sales for the year were 5,293 barrels of oil net to Pryme, an average of 15Bbls/day for the year.

The State Lease 502 No.1 well (PLX – 100% WI) was drilled by PLX during the year. The well was a success and is currently producing oil at 20 Bbls/day.

Pryme's production facilities in Catahoula Lake

Active exploration of the joint venture interests on the lake was impeded during 2010 by the bankruptcy of PLX's partner and project operator, Tridimension Energy.

On 18 October 2010 an Asset Purchase Agreement was lodged with the United States Bankruptcy Court for the sale of Tridimension's oil and gas assets to a Houston based private oil and gas company, Sanchez Oil and Gas Corporation (Sanchez). The closing of the sale to Sanchez was effective 1 November 2010. Sanchez has now taken the position in the joint venture which was formerly occupied by Tridemension. Pryme looks forward to working closely with Sanchez on the further development of Catahoula Lake.

The Company has reviewed the potential benefits from working over operating wells within the PLX 100% owned tenements in Catahoula Lake and expects that the workover of up to three wells should result in a significant increase in production for little outlay. Therefore, subject to weather or other events limiting access to the wells, PLX intends to work-over three wells during the second quarter of 2011. The Company is also anticipating the drilling of one or two new wells later in the year on PLX 100% owned tenements.

Pryme Energy LLC, the wholly owned subsidiary and operating arm of Pryme Oil and Gas Inc., is the operator of PLX 100% owned leases on Catahoula Lake.

EXPLORATION

Turner Bayou 3D Seismic Project

The Deshotels 20-H No.1 well, in Pryme's Turner Bayou Chalk project in the North Bayou Jack Field, is the first deep well to be drilled within the Turner Bayou 3D seismic survey. The well was drilled to a depth of 16,400 feet (5,000 metres) vertically with a 3,755 feet (1,144 metre) horizontal leg through the Austin Chalk formation which is predominantly oil bearing in this region. The well location was confirmed using high resolution 3D seismic data from a survey carried out in 2007 and data from surrounding well bores.

Drilling of the Deshotels 20-H No.1 well

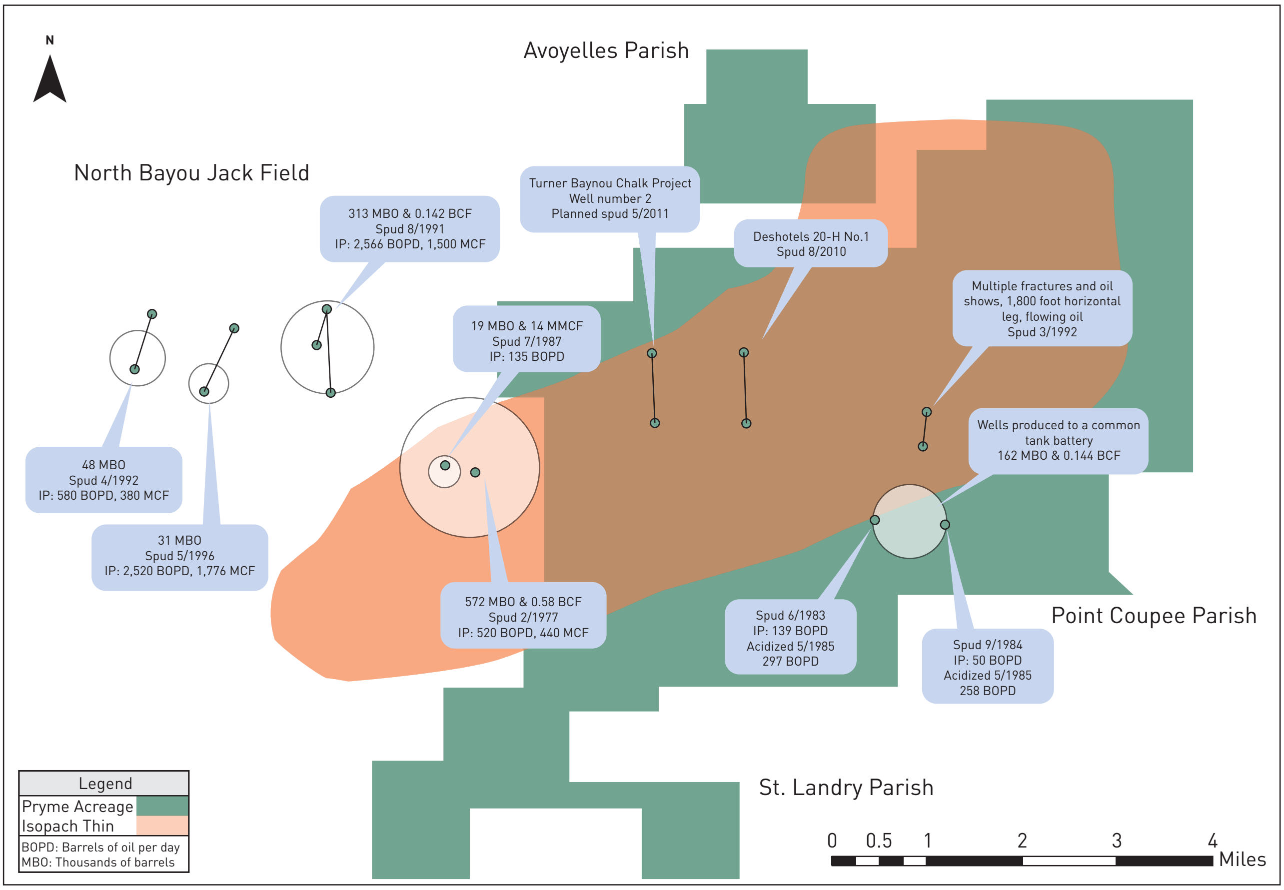
Turner Bayou is one of Pryme's high value projects. It is located in Avoyelles Parish, Louisiana. Pryme has a 40% interest in the Turner Bayou Chalk project area, which is contained within the Turner Bayou 3D seismic survey, and a 52% interest in the balance of Turner Bayou. The Turner Bayou project comprises approximately 80 square miles (50,000 acres) which have been imaged by a proprietary 3D seismic survey.

The production potential of the Austin Chalk formation within the Turner Bayou 3D seismic survey was identified from several vertical wells which were drilled in the period from the mid 1970's to the mid 1990's and include one of the best vertical wells in the trend which produced 570,000 barrels of oil and 0.58 Bcf of natural gas.

Interpretation of the seismic data indicates that an erosional event occurred during the Upper Cretaceous age and caused the chalk to thin from 1,000 feet to 450 feet in some sections (see map on page 11). These thinner chalk sections could potentially have made the chalk more likely to fracture than thicker sections and to provide a better hydrocarbon reservoir. Extensive fracturing and associated oil and gas, which were evident in the recently drilled Deshotels 20-H No.1 well, were also identified in the only other horizontal well drilled in the area of Pryme's seismic shoot (drilled in 1992). It appears that these geological conditions have created a productive section of the chalk which is not regional, but local. As a result, Pryme's Turner Bayou Chalk project is a resource style oil play with conventional production and drainage characteristics. Such plays are becoming increasingly scarce in the United States.

Projects

Turner Bayou Austin Chalk Isopach Thin



The Turner Bayou Chalk project covers over 20,000 under lease acres (8,000 net acres leased to Pryme) with primary targets contained within five prospective formations ranging in depth as follows:

- Frio ~3,000 feet
- Wilcox ~12,000 feet
- Austin Chalk ~15,300 feet
- Eagle Ford ~15,800 feet
- Tuscaloosa ~16,200 feet

Electronic logs run during the drilling of the Deshotels 20-H No.1 indicated potentially productive zones within all five prospective formations outlined above.

Whilst attention is currently focused on the development of the Austin Chalk, the Eagle Ford is of particular interest, given that a vertical completion was made in the interval in 1977 by Gulf which tested at initial rate of at over 100 Bbls/day and associated gas with no stimulation. The electronic log analysis of the Eagle Ford in the Deshotels well indicates several hundred feet of sandy shale with an average porosity of 16%. This compares favourably to some of the better locations in the Eagle Ford play in South Texas which exhibit porosities in the 6% to 12% range. In addition to the Austin Chalk, this deeper play could prove to be valuable for the Company and will be appraised and tested in future wells.

Drilling of the Deshotels 20-H No.1 well in North Bayou Jack Field, commenced in the first week of August. Pryme's working interest in the well is 40%, equivalent to a 30% NRI.

The vertical section of the well reached total depth of 16,400 feet (5,000 metres) by mid-September 2010. A full set of logs was run and evaluated. Logging confirmed the full section of the Austin Chalk formation, as interpreted from the mud log and the 3D seismic survey, had been intersected. Directional drilling to establish the start of the horizontal leg in the Austin Chalk formation was kicked off at a depth of approximately 14,730 feet (4,490 metres) in the vertical section of the well. After some initial complications kicking off directional drilling, the curved section connecting the vertical well bore to the horizontal leg was drilled to a depth of approximately 40 feet below

Projects

the top of the Austin Chalk formation. Intermediate casing was run to preserve well bore integrity through to the top of the formation.

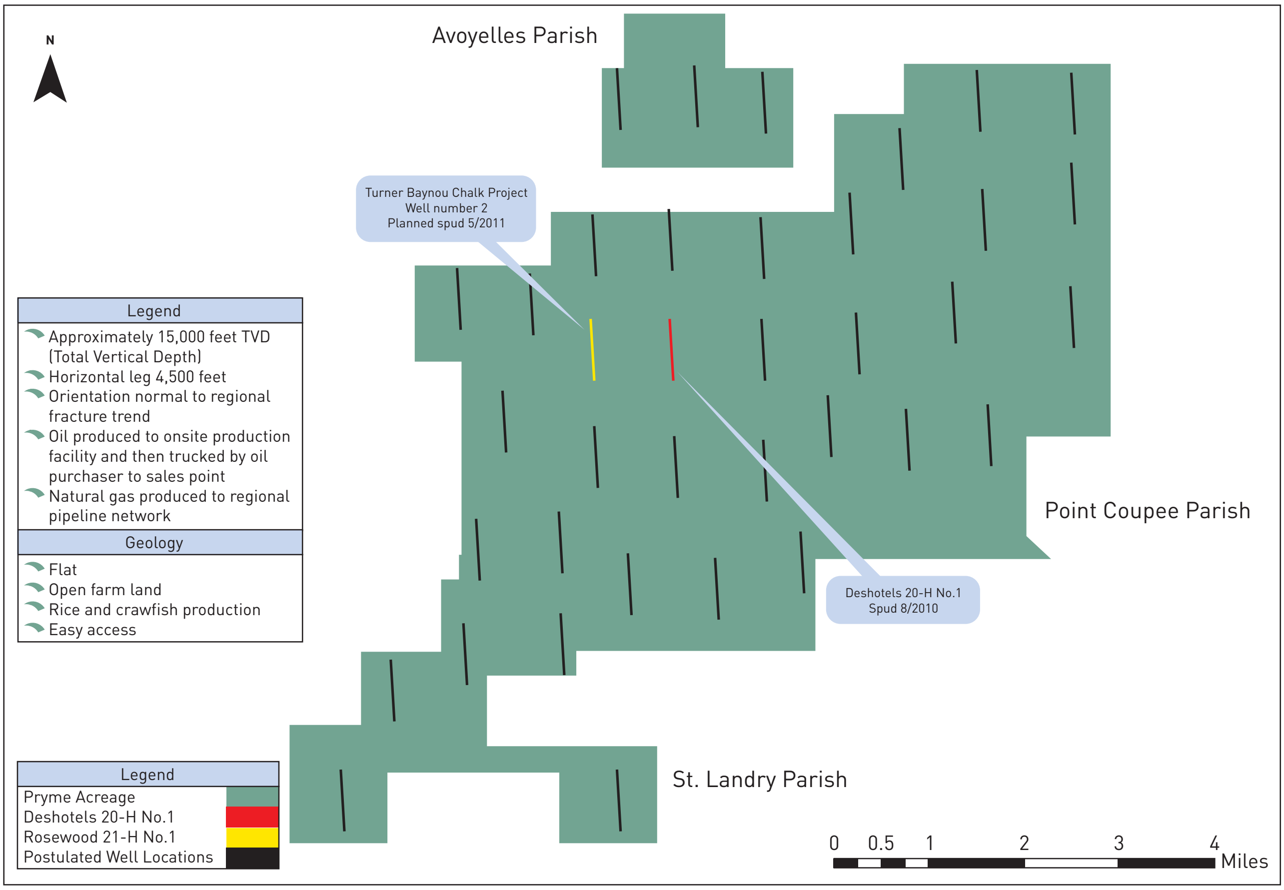
The operator then drilled the 4,500 feet (1,372 metres) long horizontal leg through the Austin Chalk formation. The horizontal leg of the well intersected a number of major fracture zones in the targeted Austin Chalk formation and flowed oil and gas to surface during drilling. A liner (casing) was run through the horizontal leg and cemented in place. Twenty intervals, comprising an aggregate 640 feet of the 3,755 feet length of the horizontal leg, were perforated. A plan was implemented to acidize each of the perforated intervals with the goal of cleaning up the perforations of residual cement and enhancing communication between the perforated intervals and the oil and gas bearing fracture zones.

Mechanical issues impeded the effective completion of the Deshotels 20-H No.1 well in the Turner Bayou Chalk project. Completion crews were unable to run 2 7/8 inch tubing past a damaged liner hanger (located at approximately 15,000 feet deep) and into the top of the 4 1/2 inch production liner. The well was put into production mode and remediation efforts suspended until after the drilling of the next well.

Prior to this operation, the well had been producing intermittently since early January and has produced approximately 13,000 barrels of oil (3,500 net to Pryme) which have been sold to market at spot prices. Spot prices for oil are currently in excess of US$100 per barrel.

The project focus is now on the drilling of well number two which is expected to spud in May.

SchematicTurner Bayou Project Development Model (Assuming Continued Success)



Projects

Despite the mechanical problems during the completion of the Deshotels 20H No.1 well, the Company is encouraged by the geological results. The mechanical and completion issues are being addressed in the design of well number two and will result in changes which should simplify operations moving forward. Pryme and its partners plan to spud well number two in May; it will be located one mile west of the Deshotels 20-H No.1. Building of the road and location are expected to begin late in March. A third well, planned for drilling towards the end of 2011, will be located one mile east of the Deshotels 20-H No.1.

Based on the estimated drainage of the reservoir and the postulated production unit orientation, the development plan for the entire Turner Bayou Chalk project is expected to include up to 30 wells based on 640 acre spacing (see map on page 12.) The rate of drilling activity is likely to be increased after completion of the third well.

While the cost to drill and complete the Deshotels 20-H No.1 well was significantly over budget, drilling and completion costs moving forward are estimated to be in the range US$7m to US$8m per well to the 100% working interest. Recoverable oil is expected to range from 750,000 to 1,500,000 barrels of oil per well.

CORPORATE

Placement and Rights Issue

Placement

During the third quarter of 2010, Pryme successfully placed 21.5 million fully paid ordinary shares at $0.08 per share to raise approximately A$1.7 million.

Rights Issue

In conjunction with the Placement, Pryme announced a 1 for 8 non-renounceable Rights Issue (Rights Issue) providing the opportunity for eligible shareholders to acquire additional shares in the Company at the same price as the Placement. The Rights Issue raised a further $2.0 million through the issue of 25 million new fully paid ordinary shares.

With the successful Placement and Rights Issue, Pryme's issued capital increased to 225,057,754 fully paid ordinary shares. Pryme raised approximately $3.7 million on the completion of the rights issue and placement.

Application of Funds

The funds raised by the private placement and the rights issue were primarily used to ensure that the Company remained well funded through the drilling and completion of the Deshotels 20-H No.1 well in the Turner Bayou Chalk project so that, in addition to funding normal working capital requirements, the Company could fund its share of cost overruns, participate in the next well to be drilled in the project and continue its other exploration, development and production activities.

APPENDIX

Competent Person Statement

Technical information contained in this report in relation to Turner Bayou was compiled by Pryme and reviewed by Mr Greg Short, BSc. Geology (Hons), a Director of Pryme who has more than 33 years' experience in the practise of petroleum geology. Mr Short consents to the inclusion in this report of the information in the form and context in which it appears.

Corporate Governance Statement

Pryme's Board of Directors believes there is a strong link between high standards of corporate governance and equity performance. We are committed to operating in accordance with Pryme's corporate governance policies in all aspects of our business.

We believe that good corporate governance is about conducting business in a transparent and ethical way that enhances value for all of our stakeholders. We expect all Pryme personnel to demonstrate high ethical standards and respect for others. We operate in an open, honest and collaborative fashion with all stakeholders and our corporate integrity is of the greatest importance.

The Board is responsible for the corporate governance of the group. The Board's guiding principle is that it acts honestly, conscientiously and fairly, in accordance with the law and in the interests of Pryme's shareholders, personnel and other stakeholders.

Pryme ensures, wherever possible, that its practices are consistent with the Second Edition of the Australian Securities Exchange (ASX) *Corporate Governance Council's Principles and Recommendations* (ASX Principles). In certain circumstances, due to the size and stage of development of Pryme, it may not be practicable or necessary to implement the ASX Principles in their entirety. Pryme's statement of conformity to the ASX Principles is set out below, areas of divergence are noted.

Principle 1 – Lay solid foundations for management and oversight

The Board's key responsibility is the creation, enhancement and protection of long-term shareholder value within an appropriate risk framework. Pryme's commitment to governance and the Board's role, responsibilities and conduct are contained in the Board Charter which has been approved by the Board and is published on the Pryme website, www.prymeoilandgas.com, under the Corporate Governance tab. The Board Charter is reviewed and amended from time to time as appropriate.

The Board establishes the strategic direction and policy framework within which the day-to-day business of the Company is managed. Management's role is to manage Pryme in accordance with the direction and delegations of the Board and the Board is responsible for overseeing the activities of management in carrying out these delegated duties.

Board members are committed to spending sufficient time to enable them to carry out their duties as Directors of Pryme. Candidates for Director must confirm that they have the necessary time to devote to their Board position prior to appointment. Non-executive Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Executives are provided with a formal job description and an employment contract describing their term of appointment, duties, rights, responsibilities and rights on termination. Executives are subject to a formal performance review process on an annual basis. The focus of the review is to measure performance against qualitative and quantitative key performance indicators which, where appropriate, are linked to short term incentive and long term incentive components of each executive's remuneration package. This ensures objectives are aligned to Pryme's business plan. The formal performance review process was undertaken during 2010.

Executives also undergo an induction program to gain an understanding of Pryme's financial position, its strategies, operations and risk management framework and the respective roles of the Board and management.

In addition to its executive management team, Pryme engages technically experienced, consultants with valuable knowledge and experience in petroleum engineering, oil and gas leasing, land management and geology.

Principle 2 – Structure the Board to add value

Pryme currently has four Directors, two of whom are Executive Directors, Mr Justin Pettett who is the Managing Director and Chief Executive Officer and Mr Ryan Messer who is the Chief Operating Officer. The Chairman, Mr George Lloyd, and Mr Gregory Short are Independent Non-executive Directors. There is a clear division of responsibility between the Chairman and the Chief Executive Officer.

Pryme does not comply with ASX Principle 2.1 which requires that a majority of the Board should be Independent. The Board believes that, given the size of the Company, the nature of its operations and the ability of all incumbent directors to bring an independent judgement to bear in Board deliberations, a four member Board comprising at least two independent directors is appropriate for the Company in its present stage of development.

It is intended that the composition of the Board be balanced, with Directors possessing an appropriate mix of skills, experience, expertise qualifications and contacts relevant to Pryme's business. The qualifications, experience and tenure of the Directors are set out in the 2010 Directors' Report. The Board Charter and the Remuneration & Nomination Committee Charter outline in more detail the procedure for the selection and appointment of new directors.

The Board considers that independent decision-making is critical to effective governance. Independent directors

Corporate Governance Statement

are those who have the ability to exercise their duties unfettered by any business or other relationships and are willing to express an objective opinion. The independence of Non-executive Directors is assessed annually by the Board against the definition outlined in the Board Charter. It is the approach and attitude of each Non-Executive Director which is critical to determining independence and this must be considered in relation to each Director while taking into account all relevant factors, which may include whether the Non-executive Director:

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

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

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

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

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

The Pryme Constitution states that at each Annual General Meeting (AGM) one-third of the Directors (excluding the Managing Director) and any Director who has held office for three or more years since their last election are required to retire from office. Any Director appointed by the Board since the previous AGM must stand for election at the next AGM. Retiring Directors are eligible for re-election.

New Directors undergo an induction process in which they are given a full briefing on Pryme. Where possible, this includes meetings with key executives, tours of the operating sites (if practicable), provision of an induction package containing key corporate information and presentations.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. This includes education concerning key developments in the Company and in the industry and environment in which the Company operates.

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

The Board has established a Remuneration & Nomination Committee which is primarily responsible for determining remuneration, establishment of recruitment policies and procedures, reviewing the performance of Directors and senior executives and reviewing the composition and competencies of the Board. The Committee Charter is reviewed annually and is available on the Company's website.

Given the small number of Directors, the Committee is comprised of both the Non-executive Directors, with the Committee Chairman being Mr George Lloyd, an independent Director. Accordingly, the Company does not wholly comply with ASX Principles 2.4 and 8.2 which recommend that the Committee comprise of at least three members with majority of them being independent. However given the size of the Company and the stage of its development, the Board considers the Committee to be of sufficient size and independence to perform its functions effectively.

Details of the Committee members' attendance at Committee meetings are set out in the 2010 Directors' Report.

The Board carries out a Board performance assessment on an annual basis. The performance of the Chairman is reviewed and assessed by the other Directors, and the Chairman reviews and assesses the performance of the other Directors. The outcomes of the reviews form the basis for a series of matters arising which the Board addresses over the short to medium term. A performance assessment of the Board was undertaken during 2010 in accordance with the process described in this section.

The Board conducts formal strategy sessions as appropriate to provide the opportunity for Directors

Corporate Governance Statement

and management to review operations and consider proposed future activities. Given the size of the Board and management team, there are also frequent opportunities for less formal strategy discussions.

Principle 3 – Promote ethical and responsible decision-making

The Board has adopted a Code of Conduct and Ethics which is published on the Company's website. The Board, senior executives and all employees are committed to implementing and complying with the Code. The Code requires that the Company and its employees, consultants, contractors, advisors and all other people when they represent Pryme, operate to the highest standards of ethical behaviour, honesty and fairness in relationships with stakeholders. Stakeholders include employees, contractors, clients, customers, suppliers, joint venture partners, shareholders, government authorities, regulators, creditors and the community as a whole.

All personnel are requested to report immediately any circumstances which may involve a breach of this Code to the Company Secretary, the Managing Director or the Chairman. It is in the best interests of Pryme for all personnel to immediately report any observance of a breach of the Code. The external auditors of Pryme are responsible for reviewing the operations of Pryme. This review includes reporting to the Board any breaches of this Code which they detect.

Any breach of applicable laws, accepted ethical commercial practices or other aspects of the Code of Conduct and Ethics will result in disciplinary action.

The Company has adopted a Securities Trading Policy in line with the updated ASX Listing Rules and Guidance Note to regulate dealings by the Company's directors, employees and all other people when they represent Pryme.

Consistent with the legal prohibitions on insider trading contained in the Corporations Act, all Pryme personnel are prohibited from trading in Pryme's securities while in possession of material non–public information. Material non-public information is information, which a reasonable person would expect to have a material affect on the price or value of Pryme's securities. The policy allows Pryme personnel, and their related parties, to buy or sell shares only during the six week period commencing the first trading day after the announcement of Appendix 5B, full year results, the half year results, the AGM and a date which the Board determines. Trading outside the permitted windows is allowed only in exceptional circumstances with the prior written approval of the Board at least two business days prior to any proposed trade.

Any transaction with Pryme shares conducted by Directors is notified to the ASX. Each Director has entered into an agreement with the group to provide information to enable Pryme to notify the ASX of any share transactions within five business days.

A copy of the Securities Trading Policy is available on the Corporate Governance section of the Company's website and has also been lodged with the ASX.

Given the size and scale of operations of the Company, the Board has decided not to adopt a Diversity Policy at this stage. Accordingly, the Board has not yet set any measurable objectives for achieving gender diversity.

The percentage of female employees in the whole organisation, senior management and the Board are as follows:

Whole organisation: 33.33%
Senior Management: 33.33%
Pryme Board: NIL

Principle 4 – Safeguard integrity in financial reporting

The Board has established an Audit Committee, comprising the two Non-executive Directors, which is primarily responsible for determining the reliability and integrity of financial information to be included in the financial statements, accounts and other reports of Pryme, for ensuring the independence of external auditors and for financial risk management.

Mr George Lloyd, the Chairman of the Board, is also Chairman of the Audit Committee. Accordingly, the Company does not comply with ASX Principle 4.2 which recommends that the Chairman of the Board not be the Chairman of the Audit Committee and that the Committee consist of at least three members. However, the Board considers Mr Lloyd, who is an independent director, is the most appropriately qualified of all incumbent Directors to be charged with this responsibility. The Board also considers the size of the Committee to be appropriate for the size and scale of the Company at this time.

The Audit Committee operates in accordance with its Charter which has been approved by the Board and is published on Pryme's website. The Charter is reviewed regularly to ensure that it conforms to market practices. Importantly, at its absolute discretion, the Committee, or its members, may meet outside of a Committee Meeting with the external auditors of Pryme.

Details of the Committee members' attendance at Committee meetings are set out in the 2010 Directors' Report.

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The Audit Committee is responsible for reviewing the nomination, performance and independence of the external auditors. Candidates for the position of external auditor of Pryme must be able to demonstrate complete independence from Pryme and an ability to maintain independence throughout the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis. Other than this mandatory criteria, the Board may select an external auditor based on criteria relevant to the business of Pryme such as experience in the industry in which Pryme operates, references, cost and any other matters deemed relevant by the Board.

The Board reviews the performance and independence of the external auditor on an annual basis. At the time of the half-year review and full-year audit of the Pryme financial statements, the external auditor formally presents to the Audit Committee a certificate confirming their independence. The external auditor's independence statement is included in the Audit Committee Report to the Board.

Principle 5 – Make timely and balanced disclosure

Pryme fully supports the continuous disclosure regime and its current practice is consistent with the ASX Principles. Pryme has in place mechanisms to ensure that:

(a) all investors have equal and timely access to material information concerning Pryme; and

(b) all announcements released by Pryme are factual, presented in a clear and balanced way, do not omit any material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

Pryme has a Board approved Continuous Disclosure Policy for ensuring compliance with ASX Listing Rule disclosure requirements. The Board has designated Pryme's Managing Director, with the assistance of the Company Secretary, as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

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

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

Upon confirmation of receipt from the ASX, Pryme posts all information disclosed in accordance with this policy on its website in an area accessible by the public.

A copy of the Continuous Disclosure Policy is available on the Pryme website.

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

Principle 6 – Respect the rights of shareholders

The Board is committed to communicating with shareholders regularly and clearly.

Pryme is committed to:

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

The Annual Report, half-year report, Annual General Meeting and specific investor briefings are all important communication forums. The group encourages shareholders to attend and participate at general meetings to ensure accountability. Pryme welcomes questions from shareholders at any time and these will be answered within the confines of information that is already in the public domain and is not market sensitive. The external auditor attends the AGM and is available to answer any questions with regard to the conduct of the audit and the corresponding report.

Shareholder communication is conducted in accordance with the Pryme Continuous Disclosure Policy and Shareholder Communication Policy, both of which are published on the Pryme website.

Pryme also makes available various communication avenues for shareholders to make enquiries of Pryme.

Corporate Governance Statement

The following documents that address corporate governance are available within the Corporate Governance section of Pryme's website:

- Corporate Governance Statement
- Board Charter
- Audit Committee Charter
- Remuneration and Nomination Committee Charter
- Code of Conduct and Ethics
- Continuous Disclosure Policy
- Risk Management Policy
- Shareholder Communications Policy
- Securities Trading Policy
- Environmental Management, Health and Safety Policy

Where possible, Pryme will arrange for advance notification to shareholders of significant group briefings. Presentations to be made at such briefings, which contain information not previously released to shareholders, will be released via the ASX and published on the Company's website. The Company will also keep a summary record (for internal use) of the issues discussed at briefings with investors and analysts.

Principle 7 – Recognise and manage risk

The Board is responsible for establishing policies on risk management and internal control and acknowledges the importance of effective risk management to the long term success of Pryme. Pryme has a Board approved Risk Management Policy, published on the website, that assists the group in identifying and managing risk in accordance with best practice.

The Board has implemented the following control framework:

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

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

Investment appraisal: The Board has set clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements. Capital expenditure and revenue commitments that exceed a delegated authority will require prior Board approval. Procedures have been established to ensure business transactions are properly authorised and executed. Compliance with these procedures may be scrutinised by the external auditor.

Due to the size and scale of operations of Pryme, there is no separate internal audit function. The Executive Directors and the Chief Financial Officer presently carry out an internal audit to analyse and give an appraisal of the adequacy and effectiveness of Pryme's risk management and internal control system. This internal audit is independent of the external auditor. The risk management and internal control system will be reviewed by the Board at least annually. In addition, the Board reviews and discusses current and emerging material risks at each Board Meeting.

Management is responsible for designing and implementing the risk management framework. Management identifies and reviews the major risks impacting each area of the business and develops strategies to effectively mitigate these risks. To date, at the time the Board approves the half and full-year results, the Managing Director, Chief Operating Officer and the Chief Financial Officer have represented to the Audit Committee and the Board that, to the best of their knowledge:

- the statement given in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal compliance and control; and

- Pryme's risk management and internal compliance and control system is operating efficiently and effectively in all material respects in relation to financial reporting risks.

As recommended by the ASX Principles, Management will report to the Board on the effectiveness of Pryme's management of its material business risks with respect to future reporting periods.

Principle 8 – Remunerate fairly and responsibly

As described previously, the Remuneration & Nomination Committee has been established to review all remuneration and performance related matters of Pryme and to operate in accordance with its Charter. As also previously noted, the Committee composition does not fully comply with Recommendation 8.2 which recommends that the Committee comprise of at least three members with majority of them being independent. However given the size of the Company and the stage of its development, the Board considers the Committee to be of sufficient size and independence to perform its functions effectively.

The Committee will assist the Board in fulfilling its responsibilities with respect to establishing appropriate remuneration levels and incentive policies for employees.

Corporate Governance Statement

All directors are invited to attend Committee meetings; however, "interested" directors do not remain present for consideration of related matters and do not vote on such matters. Senior executives are not directly involved in determining their remuneration.

In relation to remuneration issues, the Board has established a policy to ensure that it remunerates fairly and responsibly. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated directors and employees. The structure of executive remuneration is distinctly different to that of Non-executive Directors which is detailed in the Remuneration Report. The policy is designed for:

(a) decisions in relation to the constituents of executive and Non-executive remuneration policy;

(b) decisions in relation to executive remuneration packages;

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

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

The Pryme Personnel Securities Trading Policy states that executives are not permitted to enter into transactions in financial products, securities or derivatives which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes.

The Remuneration Report for the 2010 year and further details about the Remuneration Policy of Pryme are set out in the 2010 Directors' Report. Further details about Pryme's long-term incentive plan are contained in the Notice of the Annual General Meeting.

Directors' Report

In accordance with a resolution of directors, the directors present their report together with the Financial Report of Pryme Oil and Gas Limited (Pryme) and its wholly owned subsidiaries (together referred to as the Consolidated Group) for the financial year ended 31 December 2010 and the Independent Audit Report thereon. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

1. Directors

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

(a) George Lloyd – Chairman

Independent Non–Executive Director (Appointed 29 January 2008)

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

He has more than 30 years' senior management experience in the resources and energy sectors, with a focus on business development, corporate strategy, mergers and acquisitions and exploration management. He is the Chairman of AWR Lloyd Limited, an Asian-based corporate finance and strategy advisor to the energy, mining and metals industries in the Asia-Pacific region.

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

- Cape Alumina Limited (Chairman, appointed January 2009)
- Ausenco Limited (Non-Executive Director, appointed May 2005); and
- GoldlinkIncomePlus Limited (Non-Executive Director, November 2007 to April 2008)

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

Executive Director (Appointed 1 December 2005)

Mr Pettett is the co-founder of Pryme and has broad experience as a public company director with positions in senior management.

Mr Pettett has sixteen years experience at a Managing Director and CEO level of medium sized businesses, the last ten specifically in the oil and gas industry focused primarily in the United States. He has drilled over 140 wells throughout Louisiana and Texas resulting in the discovery of new oil fields. Along with conventional natural gas wells throughout Oklahoma, more specifically the co-management of the development of a 27 well coal bed methane field.

Mr Pettett has widespread experience and knowledge from the board room through to the oil field covering many facets of the oil and gas industry.

Mr Pettett is an associate member of the American Association of Petroleum Geologists and a member of the Australian Institute of Company Directors.

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

(c) Ryan Messer - Chief Operating Officer

Executive Director (Appointed 1 December 2005)

Mr Messer, the co-founder of Pryme, graduated from the University of Central Florida with a degree in Business Administration, majoring in Marketing and Finance and is a member of the Independent Petroleum Association of America.

Mr Messer has thirteen years of experience in international business, five of which were in management positions in the technology sector focused on developing business within Fortune 500 accounts. The last eight have been in the energy sector, in the area of oil and gas project finance, asset acquisition and divestiture, asset allocation, and risk assessment. He has experience in managing field and land rig operations, developing midstream assets and assisting in the formation of technical teams, all of which were derived from the drilling of over 130 wells and the resulting field development, spread across five basins within North America.

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

Directors' Report

(d) Gregory Short

Independent Non – Executive Director (Appointed 21 January 2010)

Mr Short holds a Bachelor's degree in Geology from the University of New England and is a Graduate of the Australian Institute of Company Directors.

Mr Short is a geologist with over 30 years experience in petroleum exploration, initially as a production and operations geologist then rapidly advancing to supervisory and management positions. His experience includes 15 years overseas in senior exploration management positions in the USA, Europe and Africa. In the USA he was responsible for all of Exxon's petroleum exploration activities which included on shore and offshore Gulf Coast exploration.

Mr Short has a strong technical grounding in exploration, development and production geoscience, exploration operations, joint venture management, Government relations, budgeting, contract and project management and people management.

He also holds directorships in the following ASX listed companies:

- MEO Australia Limited (Non-Executive Director, appointed July 2008); and
- Po Valley Energy (Non-Executive Director, appointed July 2010).

2. Company Secretary

Swapna Keskar (MCom, LLB) is a company secretary of a number of unlisted entities and is a member of Chartered Secretaries Australia, The Institute of Company Secretaries and Administrators, UK and the Institute of Company Secretaries of India.

Janine Rolfe resigned as Company Secretary on 25 January 2010.

3. Principal Activities

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

4. Review of Operations and State of Affairs

A review of, and information about, the Consolidated Group's operations, including the results of those operations and changes in its state of affairs during the year together with the information about the financial position of the Consolidated Group appears in the 2010 Annual Report. There are no other significant changes in the state of affairs of the Consolidated Group.

5. Events Subsequent to Reporting Date

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

6. Likely Developments

The Consolidated Group intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America. The strategies and objectives of the Consolidated Group are reviewed and discussed in greater detail in the 2010 Annual Report.

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

Directors' Report

7. Environmental Regulations and Performance

The Consolidated Group has various permits and licenses to operate in the United States of America. There have been no significant known breaches of the Consolidated Group's licence or permit conditions. Furthermore, no government agency has notified the Consolidated Group of any environmental breaches during the period ended 31 December 2010.

8. Dividends

No dividend was paid, recommended for payment or declared during the year under review.

9. Options and Rights

Unissued Shares Under Option

At the 2010 Annual General Meeting, shareholders approved the grant of 500,000 $0.15 options over unissued ordinary shares to Mr Gregory Short as an incentive attaching to his Directorship. The options will expire on 20 January 2012 and may be exercised after 20 January 2011. As at the date of this report, no options have been exercised.

The fair value of the options has been determined using the Black Scholes method that takes into account the exercise price, the share price at grant date, expected dividend yield, volatility of the underlying share and the risk free interest rate for the term of the option/right. The model inputs for the rights/options granted during the year included:

(i) Share price at grant date $0.08

(ii) Expected price volatility 107.496%

(iii) Expected dividend yield 0%

(iv) Risk free interest rate 4.65%

		Held at the beginning of the year	Granted	Exercised	Lapsed	Held at the end of the year	Vested during the year	Vested and exercisable as at 31 December 2010
Greg Short	2010	-	500,000	-	-	500,000	-	-
	2009	-	-	-	-	-	-	-

Directors' Report

Unissued Shares to be Allocated upon Conversion of Performance Rights/Restricted Stock Units

As at 31 December 2010, there were 3,037,857 unissued ordinary shares of Pryme that may be allocated upon conversion of Performance Rights/Restricted Stock Units. Subject to the applicable tenure conditions being satisfied, the timing for vesting of the shares is as follows:

	Vesting Date	Number of Shares
2009 Long Term Incentive Plan	01 January 2011	553,428
	01 January 2012	553,427
2010 Long Term Incentive Plan	01 January 2012	965,501
	01 January 2013	965,501
Total		**3,037,857**

As announced to the ASX on 4 January 2011, 553,428 Performance Rights and Restricted Stock Units shown above vested on 1 January 2011 and converted to ordinary shares on 4 January 2011.

10. Directors' Meetings

The number of meetings of the Board and of each Board Committee held during the year (while each Director was a Director or committee member) and the number of meetings attended by each director are set out below:

	Board Of Directors		Audit Committee (#)		Remuneration & Nomination Committee(##)	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
George Lloyd	12	12	4	4	1	1
Justin Pettett	12	12	4 (#)	4 (#)	1 (##)	1 (##)
Ryan Messer	12	12	4 (#)	4 (#)	1 (##)	1 (##)
Greg Short	12	12	4	4	1	1

Committee comprises Non-Executive Directors, although Executive Directors are invited to attend Audit Committee Meetings.

Committee comprises Non-Executive Directors, although Executive Directors were invited to attend this Remuneration & Nomination Committee Meeting.

11. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2010 are as follows:

Director	Ordinary Shares	Entitlement to Ordinary Shares[1]	Options over Ordinary Shares	American Depository Receipts
Justin Pettett	4,500,000	1,389,722[2]	-	-
Ryan Messer	2,887,791	1,389,722[2]	-	1,110[3]
George Lloyd	3,665,000	-	-	-
Greg Short	60,000	-	500,000	-

1 Further information on securities granted to directors as part of their remuneration is set out in Note 5 of the Financial Statements.
2 These shares are subject to vesting requirements as set out in the Remuneration Report.
3 Equivalent to 11,100 ordinary shares.

Other than as stated above in relation to awards under the Pryme Oil & Gas Long Term Incentive Plan, there are no contracts to which a director is a party or under which a director is entitled to a benefit that confer a right for the director to call for shares in Pryme.

Directors' Report

12. Remuneration Report

The directors of Pryme present the Remuneration Report prepared in accordance with Section 300A of the Corporations Act, Accounting Standard AASB 124 *Related Party Disclosures* and Principle 8 of the ASX Corporate Governance Principles and Recommendations.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act. This remuneration report forms part of the Directors' Report.

Remuneration Policies and Practices

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

Executive Remuneration Philosophy

At Pryme, Executive Remuneration consists of:

- Total Remuneration (TR) = Fixed Remuneration (FR) + Short Term Incentive (STI) + Long Term Incentive (LTI)
- Total Remuneration for Executive Directors includes Directors Fees which are paid in addition to Fixed Remuneration and, for the purposes of calculation of incentive remuneration, do not comprise part of Fixed Remuneration.
- STI and LTI are the 'at risk' portions of remuneration.
- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis.
- LTI is delivered in an equity award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.
- The Board may also determine to pay a bonus in cash in circumstances of outstanding performance not otherwise appropriately rewarded.
- The Remuneration Committee will review the structure of at risk remuneration from time to time and report to the board. Such a review may include, but not be limited to, changing the proportion of Total Remuneration which is at risk, the payment of Short Term and Long Term Incentives and the proportion of the at risk remuneration between Short Term and Long Term Incentive.

Total Reward Mix

The proportion of Total Remuneration at risk is generally expressed as a proportion of Fixed Remuneration and is related to the agreement on remuneration struck between the Company and the executive, the Company's expectations of executive performance and the executive's position in the Company. However, in the case of the Chief Operating Officer, the value of Total Remuneration at risk is the same as the value of the Chief Executive Officer's Total Remuneration at risk irrespective of the relative levels of Fixed Remuneration. The proportion of FR will generally not change on a year to year basis but may be reviewed and modified by the Board.

The mix of STI and LTI offered to executives will depend on their position in the Company. Generally LTI will only be available to the senior executive team; STI may be made available to employees below the senior executive team.

As a general guideline, for members of the senior executive team who receive both STI and LTI, the maximum proportion of at risk remuneration that may be payable as STI is 40%.

Fixed Remuneration

Fixed Remuneration (including the 9% superannuation levy payable as employer contribution (where applicable)) is set with reference to market data, reflecting the scope of the role and the performance of the person in the role.

Directors' Report

At-Risk Remuneration

Clear and focused performance targets for management are critical to the success of the Company.

STI

- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis

LTI

- LTI is delivered in an equity based award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.
- LTI is the key tool to allow the Company to attract and retain talented executives and ensure the interests of executives are aligned with those of Shareholders in creating long-term Shareholder value.

The LTI scheme for Pryme which was approved at the 2010 AGM provides for the grant of equity in the form of Performance Rights (PRs) which are subject to the achievement of a dual performance measure (for US residents Restricted Stock Units (RSUs), which have similar value characteristics).

The at risk remuneration for 2010 (which comprises both short term incentives, payable in cash, and long term incentives payable in PRs or RSUs as the case may be) as a percentage of fixed remuneration (FR) is dependent on the achievement of specific hurdles, is as follows:

	Fixed Remuneration	**At-Risk Remuneration**	
	FR %	Short term Incentive % of FR	Long term Incentive % of FR
Managing Director & Chief Executive Officer	100	nil	75
Chief Operating Officer	100	nil	75 (See note below this table)
Other Executives	100	8	20

Note:

The value of Chief Operating Officer's Total Remuneration at risk is the same as the value of the Chief Executive Officer's Total Remuneration at risk irrespective of the relative levels of Fixed Remuneration.

The hurdles under the 2010 Incentive Plan related to relative production growth and the attainment of a total shareholder return comparable with the energy sector (Performance Conditions). The performance conditions under the FY 2010 Incentive Plan were as follows:

Production Target (For which the award of up to 50% of the Total Available Incentive may be granted)		**Total Shareholder Return Target (For which the award of up to 50% of the Total Available Incentive may be granted)**	
Growth in Oil and Gas Sales Per Share	**Portion of Total Available Incentives to be Granted**	**Growth in TSR**	**Portion of Total Available Incentives to be Granted**
< 30% above previous year	Nil	< Energy Accumulation Index growth	0
30% above previous year	20%	Equal to Energy Accumulation Index growth	25%
> 30% and < 50% above previous year	An additional 1% for each 1% increment	Between 1 and 1.5 times Energy Accumulation Index growth	1% for each 0.2 times increase in Energy Accumulation Index over 1
50% or more above previous year	50%	> 1.5 times Energy Accumulation Index growth	50%

Directors' Report

The Performance Conditions are measured in respect of the period 1 January 2010 to 31 December 2010 and are tested at 1 January 2011 (Base Date).

A second hurdle that must be met as a precondition to vesting of Incentives is continued employment with Pryme as set out below:

Time	Available Incentives to Vest
Base Date + 1 years (1 Jan 2012)	50%
Base Date + 2 years (1 Jan 2013)	50%

In accordance with sound corporate governance principles, there will be no re-test function for any awards, instead each target has a one-off 'cliff vesting'.

Non-Executive Director Remuneration

The Non-Executive Directors are remunerated as described below.

Fees

Non-executive director fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders at a general meeting. The current limit is $300,000. During the year ended 31 December 2010, $187,143 (2009: $165,000) of the fee pool was used.

Upon shareholder approval at the Annual General Meeting held on 19 April 2010, Mr Greg Short was issued 500,000 options as an incentive attaching to his Directorship. These options are exercisable at $0.15 each on or before 20 January 2012 and can be exercised after 20 January 2011.

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

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

Relationship between Policy and Pryme's Performance

The Board believes that remuneration arrangements for employees should incorporate an "at-risk" component which is performance related and rewards employees for the achievement of goals which contribute to shareholder wealth. Such arrangements should both incentivise and reward employees for out-performance.

The Pryme Oil and Gas Limited Long Term Incentive Plan (Plan), is designed to put a portion of executive remuneration "at-risk" and provide reasonable levels of incentives to key executives to encourage and reward performance that adds value to the Company for all Shareholders.

Specifically, the value to Shareholders will be readily measurable only if targets that align to Pyrme's strategy are met. Under the Plan, there are two hurdles which test Pryme's relative production growth and the attainment of a total shareholder return comparable with the energy sector (Performance Conditions). The Board considers it appropriate to have a dual test since:

- growth in production (represented by growth in annual sales per year of oil and gas) rewards achievement against Board approved targets/plan, converting opportunity into a revenue stream for the Company. The target is within management's influence, thereby focusing executives on Pryme's key business drivers; while
- growth in total shareholder return (TSR) component provides an additional challenging test (where reward is only delivered for strengthening Pryme's position comparable to the S&P/ASX Energy Index) which has the benefit of transparency and is directly related to the return to shareholders through ownership of Pryme shares relative to the returns from the S&P/ASX Energy Index.

Directors' Report

The Board believes that the dual tests, if achieved, will demonstrably aid the creation of shareholder value.

Anti-Hedging Policy

Pryme personnel are not permitted to enter into transactions with securities (or any derivative thereof) which limit the economic risk of any unvested entitlements awarded under a Pryme equity-based remuneration scheme.

As part of Pryme's due diligence undertaken at the time of half-year and full-year results, Pryme equity plan participants are required to confirm that they have not entered into any such prohibited transactions.

Continuous Improvement

Pryme will continually review all elements of its remuneration philosophy to ensure that they are appropriate from the perspectives of governance, disclosure, reward and market conditions.

REMUNERATION SUMMARY

		SHORT TERM		POST EMPLOYMENT	EQUITY BASED PAYMENTS [1]		TOTAL	Proportion of Remuneration Performance Related
		CASH, SALARY & FEES	RELATED PARTY CONSULTING FEES	SUPER-ANNUATION	OPTIONS	RIGHTS		
		$	$	$	$	$	$	%
NON-EXECUTIVE DIRECTORS								
George Lloyd	2010	-	130,000	-	-	-	**130,000**	-
	2009	-	125,000	-	-	-	**125,000**	-
Greg Short	2010	52,425	-	4,718	3,522		**60,665**	-
	2009	-	-	-	-	-	-	-
Ananda Kathiravelu	2010	-	-	-	-	-	-	-
	2009[2]	-	40,000	-	-	-	**40,000**	
EXECUTIVES								
Justin Pettett	2010	165,132	132,000	14,863		24,342	**336,337**	7
	2009	165,135	120,000	14,863	-	10,506	**310,504**	3
Ryan Messer	2010	138,300	101,442	-	-	24,342	**264,084**	9
	2009	160,690	106,813	-	-	10,506	**278,009**	4
Sandra Gaffney	2010	140,400[3]	-	12,636	-	4,686	**157,722**	9
	2009	129,600	-	11,664	-	1,527	**142,791**	1
TOTAL	**2010**	**496,257**	**363,442**	**32,217**	**3,522**	**53,370**	**948,808**	
	2009	**455,425**	**391,813**	**26,527**	**-**	**22,539**	**896,304**	

[1] Total Directors' remuneration of $791,086 (2009: $753,513) includes $738,880 (2009: $732,501) which was paid in cash or cash equivalents and an amount of $52,206 (2009: $21,012) which is attributable to the expensing of rights granted pursuant to the Pryme Oil and Gas Long Term Incentive Plan in accordance with Australian Accounting Standard AASB2 – Share-based payments. AASB2 requires securities to be expensed over the performance period of the security, from the date of the grant and despite the fact that the vesting conditions related to continuity of tenure are yet to be attained.

[2] Resigned 14 October 2009.

[3] Includes a short term incentive bonus of $11,336 (2009: $10,464) paid as part of compensation.

Directors' Report

OPTIONS AND RIGHTS AS REMUNERATION

Details of Performance Rights (Restricted Stock Units for US residents which have similar value charateristics) provided as remuneration under the Pryme Long Term Incentive Plan ("LTIP") are set out below.

The fair value of the 2010 Incentive Plan securities granted was determined using the Monte Carlo simulation method that takes into account the exercise price, the share price at grant date, expected dividend yield, volatility of the underlying share and the risk free interest rate for the term of the option/right. The model inputs for the rights/options granted during the year included:

(i) Share price at grant date $0.07
(ii) Expected price volatility 112.906%
(iii) Expected dividend yield 0%
(iv) Risk free interest rate 4.9%

2010	Date of Grant	Number of Rights held at 1 January 2010	Rights granted in current financial year	Rights vested in current financial year	Rights forfeited in current financial year	Number of Rights held at 31 December 2010	Date Rights vest	Fair Value per Right at Grant Date
Justin Pettett	31 Dec 09	257,968	-	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09	257,968	-	-	-	257,968	1 Jan 2012	$0.059
	31 Dec 10	-	436,893	-	-	436,893	1 Jan 2012	$0.034
	31 Dec 10	-	436,893	-	-	436,893	1 Jan 2013	$0.034
Total		**515,936**	**873,786**	**-**	**-**	**1,389,722**		
Ryan Messer	31 Dec 09	257,968	-	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09	257,968	-	-	-	257,968	1 Jan 2012	$0.059
	31 Dec 10	-	436,893	-	-	436,893	1 Jan 2012	$0.034
	31 Dec 10	-	436,893	-	-	436,893	1 Jan 2013	$0.034
Total		**515,936**	**873,786**	**-**	**-**	**1,389,722**		
Sandra Gaffney	31 Dec 09	37,492	-	-	-	37,492	1 Jan 2011	$0.059
	31 Dec 09	37,491	-	-	-	37,491	1 Jan 2012	$0.059
	31 Dec 10	-	91,715	-	-	91,715	1 Jan 2012	$0.034
	31 Dec 10	-	91,715	-	-	91,715	1 Jan 2013	$0.034
Total		**74,983**	**183,430**	**-**	**-**	**258,413**		

Directors' Report

2009	Date of Grant	Number of Rights held at 1 January 2009	Rights granted in current financial year	Rights vested in current financial year	Rights forfeited in current financial year	Number of Rights held at 31 December 2009	Date Rights vest	Fair Value per Right at Grant Date
Justin Pettett	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2012	$0.059
Total		-	**515,936**	**-**	**-**	**515,936**		
Ryan Messer	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2012	$0.059
Total		-	**515,936**	**-**	**-**	**515,936**		
Sandra Gaffney	31 Dec 09	-	37,492	-	-	37,492	1 Jan 2011	$0.059
	31 Dec 09	-	37,491	-	-	37,491	1 Jan 2012	$0.059
Total		-	**74,983**	**-**	**-**	**74,983**		

Estimated Value Range of Awards

The maximum possible value of awards yet to vest to be disclosed under the Corporations Act 2001 is not determinable as it is dependent on, and therefore fluctuates with, the share price of Pryme Oil and Gas Limited at a date that any award is exercised. An estimate of a maximum possible value of awards can be made using the highest share price during FY2010, which was $0.20 (FY 2009: $0.145) multiplied by the number of shares awarded for the scheme.

During the reporting period, no shares were issued on the vesting/exercise of rights/options previously granted as compensation. As announced on 4 January 2011, 553,428 performance rights and restricted stock units shown above vested on 1 January 2011 and converted to ordinary shares on 4 January 2011.

Directors' Report

Summary of Key Contracts Terms

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

Contract Details	Justin Pettett – Chief Executive Officer (CEO) and Managing Director (MD)	Ryan Messer – Chief Operating Officer (COO)	Sandra Gaffney – Chief Financial Officer
Term	On-going	On-going	On-going
Termination notice period and payments	**Termination as per CEO Agreement:** **<u>By Pryme</u>** - For cause: 1 months' notice or salary in lieu (if convicted of any indictable criminal offence, termination shall be immediate). - For illness, injury or insanity: 9 months' notice or salary in lieu. - For convenience: 12 months' notice paid in lieu. - For redundancy: 12 months' notice + 1 months' salary for each completed year of service. **<u>By the CEO</u>** - For convenience: 3 months' written notice. - Immediately, with payment of annual and long service leave and 6 months' salary, if Pryme commits a serious or persistent breach of the Agreement. **Termination as per the MD Appointment Letter:** - Notice for termination as Director paid in lieu of notice in proportion to notice paid under the Agreement on termination as Chief Executive Officer. - No redundancy payment as Managing Director. **Annual Leave payment:** On termination, the CEO is entitled to payment in lieu of the annual leave owing to him. **Conditions to Payments** No payment is to be made where such payment is contrary to the *Corporations Act 2001* or Listing Rules of the Australian Securities Exchange (as applicable).	**Termination by Pryme:** - For cause: 1 months' notice or salary in lieu (if convicted of any indictable criminal offence, termination shall be immediate). - For illness, injury or insanity: 9 months' notice or salary in lieu. - For convenience:12 months' notice paid in lieu. - For redundancy: 12 months' notice + 1 months' salary for each completed year of service. **Termination by the COO:** - For convenience: 3 months' written notice. - Immediately, with payment of annual and long service leave and 6 months' salary, if Pryme commits a serious or persistent breach of the Agreement. **Annual Leave payment:** On termination, the COO is entitled to payment in lieu of the annual leave owing to him. **Conditions to Payments** No payment is to be made where such payment is contrary to the *Corporations Act 2001* or Listing Rules of the Australian Securities Exchange (as applicable).	**Termination by Pryme:** - For cause: 1 month's notice or salary in lieu (if convicted of any indictable criminal offence, termination shall be immediate, with no payment other than salary accrued up to date of termination). - For insanity: 3 months' written notice salary in lieu thereof, - For convenience: 3 months' written notice - For redundancy : 3 months written notice + 1 months' salary for each completed year of service. **Termination by the employee:** - For convenience: 3 months' written notice. - Immediately, with payment of annual and long service leave and 6 months' salary, if Pryme commits a serious or persistent breach of the Agreement. **Annual Leave payment:** On termination, the employee is entitled to payment in lieu of the accrued annual leave owing to her. **Conditions to Payments** No payment is to be made where such payment is contrary to the *Corporations Act 2001* or Listing Rules of the Australian Securities Exchange (as applicable).

Directors' Report

13. Indemnification and Insurance of Officers and Auditors

Directors, executives and the company secretaries are indemnified by Pryme against any liability incurred in their capacity as an officer of Pryme or a related body corporate to the maximum extent permitted by law. Pryme has paid a sum of $25,550 as premium in respect of the above indemnity and this includes insuring the directors against a liability for legal costs.

Ryan Messer, in his capacity as an employee and director of Pryme Oil and Gas Inc, is indemnified in circumstances where he is called on to provide a personal guarantee of commitments by the Company provided that the commitment of the Company or Subsidiary was incurred with the written approval of Pryme.

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, Moore Stephens, Pryme's auditor has the benefit of an indemnity to the extent Moore Stephens reasonably relies on information provided by Pryme which is false, misleading or incomplete. No amount has been paid under this indemnity during the financial year ending 31 December 2010 or to the date of this Report.

14. Non-Audit Services

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

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

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

- (i) Moore Stephens' services have not involved partners or staff acting in a managerial or decision making capacity within Pryme or in the processing or originating of transactions; and
- (ii) the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The auditor's independence declaration under section 307C of the Corporations Act is set out on page 32 and forms a part of the Annual Financial Report for the year ended 31 December 2010.

15. Proceedings on behalf of the Consolidated Group

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

16. Corporate Governance

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

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

Justin Pettett
Managing Director
Brisbane, Queensland
23 February 2011

Auditor's Independence Declaration

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Offices

Brisbane
Burdekin
Cairns
Innisfail
Toowoomba
Townsville

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

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2010 there have been:

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

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

MOORE STEPHENS

MJ McDonald

Date:11 February 2011

Brisbane, Queensland.

Moore Stephens (Queensland) Audit Pty Ltd ABN 62 126 208 179
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Financials

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated Group	
		2010	**2009**
Revenue	3	3,224,274	2,062,801
Accounting and Audit Fees		(154,113)	(165,620)
Depreciation and amortisation expenses and write offs	3	(2,597,016)	(3,917,720)
Directors Remuneration	5	(375,438)	(340,687)
Directors Remuneration – Share/Option Plan	5	(52,207)	(21,012)
Professional Consulting Fees	5	(418,553)	(502,478)
Employee benefits expense		(688,168)	(241,287)
Legal Expenses		(161,502)	(82,778)
Production Costs		(934,963)	(531,125)
Share Registry and Listing Costs		(62,950)	(46,486)
Travel and Accommodation Expenses		(247,198)	(141,444)
Other expenses		(441,139)	(323,141)
Loss on Sale of Assets		(291,244)	-
Share of net loss of associates		(733)	(19,273)
Loss before income tax		(3,200,950)	(4,270,250)
Income tax expense	4	-	-
(Loss) / Profit from continuing operations		(3,200,950)	(4,270,250)
(Loss) / Profit for the year from discontinued operations after tax		36,350	
(Loss) / Profit for the year		(3,164,600)	(4,270,250)
Other Comprehensive Income			
Net gain / (loss) foreign currency translation reserve		(3,215,567)	(5,692,039)
Income tax related to comprehensive income		-	-
Total Comprehensive Income for the year		(6,380,167)	(9,962,289)
(Loss) / profit attributable to members of the parent entity		(6,380,167)	(9,962,289)
Total Comprehensive Income attributable to members of the parent entity		(6,380,167)	(9,962,289)
Earnings per Share			
Basic earnings per share (cents per share)	7	(1.7)	(3.4)
Diluted earnings per share (cents per share)	7	(1.7)	(3.3)
From continuing operations			
Basic earnings per share (cents per share)	7	(1.7)	(3.4)
Diluted earnings per share (cents per share)	7	(1.7)	(3.3)
From discontinued operations			
Basic earnings per share (cents per share)	7	-	-
Diluted earnings per share (cents per share)	7	-	-

Financials

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	Consolidated Group	
		2010	2009
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	2,562,063	5,454,607
Trade and other receivables	9	617,347	1,237,778
Other current assets		73,578	49,177
TOTAL CURRENT ASSETS		3,252,988	6,741,562
NON-CURRENT ASSETS			
Investments accounted for using the equity method	10	5,075,331	8,623,033
Property, plant and equipment	13	722,330	442,901
Land		24,596	-
Working Interest	14	14,929,299	10,552,905
Other non-current assets		-	-
TOTAL NON-CURRENT ASSETS		20,751,556	19,618,839
TOTAL ASSETS		24,004,544	26,360,401
CURRENT LIABILITIES			
Trade and other payables	15	630,318	182,243
TOTAL CURRENT LIABILITIES		630,318	182,243
TOTAL LIABILITIES		630,318	182,243
NET ASSETS		23,374,226	26,178,158
EQUITY			
Issued capital	16	39,918,989	36,399,647
Reserves		(5,441,651)	(2,282,977)
Accumulated losses		(11,103,112)	(7,938,512)
TOTAL EQUITY		23,374,226	26,178,158

Financials

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2010

	Note	Ordinary Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Total
Consolidated Group						
Balance at 1 January 2009		29,902,450	(4,113,613)	3,386,523	445,351	29,620,711
Loss for the year		-	(4,270,250)	-	-	(4, 270,250)
Shares issued during the year		6,774,460	-	-	-	6,774,460
Share capital raising cost		(277,263)	-	-	-	(277,263)
Long Term Incentive Plan rights issued during the year		-	-	-	22,539	22,539
Adjustments from translation of foreign controlled entities		-	-	(5,692,039)	-	(5,692,039)
Transfers from retained earnings*		-	445,351	-	(445,351)	-
Balance at 31 December 2009		**36,399,647**	**(7,938,512)**	**(2,305,516)**	**22,539**	**26,178,158**
Loss for the year		-	(3,164,600)	-	-	(3,164,600)
Shares issued during the year		1,700,000	-	-	-	1,700,000
Rights issued during the year		2,000,513	-	-	-	2,000,513
Share capital raising cost		(181,171)	-	-	-	(181,171)
Long Term Incentive Plan Rights issued during the year		-	-	-	53,371	53,371
Adjustments from translation of foreign controlled entities		-	-	(3,215,567)	-	(3,215,567)
Options issued during the year		-	-	-	3,522	3,522
Balance at 31 December 2010		**39,918,989**	**(11,103,112)**	**(5,521,083)**	**79,432**	**23,374,226**

* Transfers from the options reserve as a result of the relinquishing of options by Directors has resulted in a reversal of the applicable options expense in the holding company, and where applicable has been reflected in the intercompany balance for amounts previously passed on to wholly owned subsidiaries.

Financials

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated Group	
		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,415,666	1,800,774
Interest received		195,097	87,307
Payments to suppliers and employees		(2,873,041)	(2,236,178)
Net cash provided by (used in) operating activities	21(a)	(262,278)	(348,097)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of working interest		-	-
Purchase of property, plant and equipment		(431,454)	(12,292)
Purchase of equity accounted investments		-	(310,346)
Payment for working interest		-	(2,319,729)
Payments for exploration and evaluation		(6,775,887)	-
Loans repaid by other entities		1,070,871	-
Net cash provided by (used in) investing activities		(6,136,470)	(2,642,367)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares (net of capital raising costs)		3,519,342	6,497,198
Loans Advanced		-	(985,977)
Net cash provided by (used in) financing activities		3,519,342	5,511,221
Net increase in cash held		(2,879,406)	2,520,757
Cash at beginning of financial year		5,454,607	2,963,925
Effect of exchange rate movement		(13,138)	(30,075)
Cash at end of financial year	8	2,562,063	5,454,607

Financials

Notes to the Financial Statements for the Year Ended 31 December 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

This financial report covers the consolidated financial statements and notes of Pryme Oil and Gas Limited and controlled entities ('Consolidated Group' or 'Group') and Pryme Oil and Gas Limited as an individual parent ('Parent Entity'). Pryme Oil and Gas Limited is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Basis of Preparation

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.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity over which Pryme Oil and Gas Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 11 to the financial statements.

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

Jointly Controlled Entities

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using the proportional consolidation method whereby the Group's proportionate interest in the assets, liabilities, revenues and expenses of jointly controlled entities are recognised within each applicable line item of the financial statements. The share of jointly controlled entities' results is recognised in the Group's financial statements from the date that joint control commences until the date at which it ceases.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

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Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of offset exists and it is intended net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of setoff exists, the deferred tax assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liabilities will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Property, Plant and Equipment

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

Plant and equipment

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

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Office Equipment	25%
Drilling Rig Equipment	10%
Other Drilling Equipment	20%

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

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

(d) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

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

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

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

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

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair

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value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. *Loans and receivables*

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

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

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

Impairment

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

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(g) Impairment of Assets

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

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

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

(h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates.

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

Exchange differences arising on translation of foreign operations are shown in the Statement of Comprehensive Income and disclosed in the group's foreign currency translation reserve in the Statement of Financial Position.

(j) Employee Benefits

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

Financials

Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(k) Provisions

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

(l) Cash and Cash Equivalents

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

(m) Revenue and Other Income

The group uses the sales method to account for sales of crude oil and natural gas revenues. Under this method, revenues are recognised based on volumes of oil and gas sold to purchasers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

(n) Goods and Services Tax (GST)

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

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

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

(o) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) Capital Raising Costs

All transaction costs on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Critical Accounting Estimates and Judgments

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

Financials

Key Estimates — Impairment

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

Key Judgments — Provision for Impairment of Receivables

During the year a provision for doubtful debts was raised in relation to reimbursable costs owing from a joint venture partner that has entered bankruptcy in the United States.

NOTE 2: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.

STATEMENT OF COMPREHENSIVE INCOME

	Parent Entity	
	2010 $	**2009 $**
Total (Loss) / Profit	296,860	20,274
Total Comprehensive Income	296,860	20,274

STATEMENT OF FINANCIAL POSITION

	2010 $	**2009 $**
ASSETS		
Current Assets	2,080,613	5,379,599
TOTAL ASSETS	39,215,527	35,332,463
LIABILITIES		
Current Liabilities	82,553	72,582
TOTAL LIABILITIES	82,553	72,582
EQUITY		
Issued capital	39,918,989	36,399,648
Reserves	79,432	22,539
Accumulated losses	(865,447)	(1,162,306)
TOTAL EQUITY	39,132,974	35,259,881

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NOTE 3: REVENUE AND EXPENDITURE FOR YEAR

REVENUE	Consolidated Group	
	2010 $	2009 $
Sales Revenue		
Oil and gas revenue	2,750,268	1,962,367
Less: Oil and gas revenue discontinued operations	(46,657)	-
Total Sales Revenue	2,703,611	1,962,367
Other Revenue		
— Interest from other persons	202,028	87,310
— Other revenue	508,166	13,124
— Less provision for doubtful debt	(189,531)	-
Total Other Revenue	520,663	100,434
Total Sales Revenue and Other Revenue	3,224,274	2,062,801

EXPENDITURE	Consolidated Group	
	2010 $	2009 $
Production costs – oil and gas	945,269	531,125
Less: Production costs discontinued operations	(10,306)	-
	934,963	531,125
Depreciation and amortisation	89,625	13,429
Depletion of working interest	1,690,697	1,014,374
Capitalised exploration expenditure write-off	816,694	2,889,917
Total Depreciation, amortisation and write-offs	2,597,016	3,917,720

Amounts disclosed as revenue and production costs from discontinued operations relate to an assignment by the Company of a 5% working interest and its overriding royalty interests in the Raven natural gas project to Amelia Resources LLC in settlement of outstanding claims. The effective date of the assignment is 30 September 2010 after which time the Company retains a 35% working interest (26.25% Net Revenue Interest) in Raven.

Financials

NOTE 4: INCOME TAX EXPENSE

		Consolidated Group 2010 $	Consolidated Group 2009 $
a.	The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
	Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009: 30%)		
	— consolidated group	(949,380)	(1,281,075)
	Add:		
	Tax effect of:		
	— other non-allowable items	15,267	24,163
	— Effect of current year tax losses derecognised	2,030,845	1,770,954
	— share options expensed during year	17,068	13,121
		1,113,800	527,163
	Less:		
	Tax effect of:		
	— tax deductible equity raising costs	(163,107)	(152,237)
	— tax deductible formation costs	-	-
	— Other tax deductible items	(950,693)	(374,926)
	Income tax attributable to entity	-	-
	The applicable weighted average effective tax rates are as follows:	0%	0%
b.	Net deferred tax assets not brought to account:		
	- Temporary differences	766,016	293,769
	- Tax losses	1,568,801	2,422,391
		2,334,817	2,716,160

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NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

a. Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Executive Directors	
Justin Pettett	Managing Director and Chief Executive Officer since 1 December 2005
Ryan Messer	Chief Operations Officer since 1 December 2005
Non Executive Directors	
George Lloyd	Appointed Director and Chairman on 29 January 2008
Greg Short	Appointed Director on 21 January 2010

Key management personnel remuneration is included in the Remuneration Report section of the Directors' Report.

b. Related Party Transactions – Key Management Personnel

Management consulting fees totalling $132,000 (2009: $120,000) were paid to an entity of which Mr J Pettett is a beneficial shareholder and director and amounts totalling $68,854 (2009:$47,130) were paid to associates of Mr J Pettett for accounting and graphic design related services.

Management consulting fees totalling $101,442 (2009: $106,813) were paid to an entity of which Mr R Messer is a beneficial shareholder and director and amounts totalling $49,525 (2009: $22,189) were paid to an associate of Mr Messer for administration related services.

Directorship fees totalling $130,000 (2009: $125,000) were paid to an entity of which Mr G Lloyd is a beneficiary.

c. Equity Instrument Disclosures

Details of options and performance rights provided as remuneration together with qualifying and vesting terms and conditions are provided in the Remuneration Report section of the Directors' Report.

(i) Options

2010	Balance 1.1.2010	Granted	Exercised	Net Change Other*	Balance 31.12.2010	Vested during the year	Vested and Exercisable 31.12.2010	Total Unexercisable 31.12.2010
Greg Short	-	500,000	-	-	500,000	-	-	500,000
Total	-	500,000	-	-	500,000	-	-	500,000

2009	Balance 1.1.2009	Granted	Exercised	Net Change Other*	Balance 31.12.2009	Vested during the year	Vested and Exercisable 31.12.2009	Total Unexercisable 31.12.2009
Justin Pettett	600,000	-	-	(600,000)	-	-	-	-
Ryan Messer	759,000	-	-	(759,000)	-	-	-	-
George Lloyd	500,000	-	-	(500,000)	-	-	-	-
Total	1,859,000	-	-	(1,859,000)	-	-	-	-

*The Net Change Other reflected above includes those options that were voluntarily relinquished or forfeited by holders during the 2009 year.

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(ii) **Performance Rights/Restricted Stock Units**

2010	Balance 1.1.2010	Granted as Compensation	Vested	Net Change Other	Balance 31.12.2010	Vested 31.12.2010	Exercisable 31.12.2010	Total Unvested 31.12.2010
Justin Pettett	515,936	873,786	-	-	1,389,722	-	-	1,389,722
Ryan Messer	515,936	873,786	-	-	1,389,722	-	-	1,389,722
Total	1,031,872	1,747,572	-	-	2,779,444	-	-	2,779,444

2009	Balance 1.1.2009	Granted as Compensation	Vested	Net Change Other	Balance 31.12.2009	Vested 31.12.2009	Exercisable 31.12.2009	Total Unvested 31.12.2009
Justin Pettett	-	515,936	-	-	515,936	-	-	515,936
Ryan Messer	-	515,936	-	-	515,936	-	-	515,936
Total	-	1,031,872	-	-	1,031,872	-	-	1,031,872

d. Shareholdings

The number of shares held during the year by the Directors, including their personally related parties are as follows:

2010	Balance 1.1.2010	Received as Compensation	Options Exercised	Net Change Other *	Balance 31.12.2010
Justin Pettett	3,661,000	-	-	839,000	4,500,000
Ryan Messer	2,506,925	-	-	380,866	2,887,791
George Lloyd	3,080,000	-	-	585,000	3,665,000
Greg Short	-	-	-	60,000	60,000
Total	9,247,925	-	-	1,864,866	11,112,791

2009	Balance 1.1.2009	Received as Compensation	Options Exercised	Net Change Other *	Balance 31.12.2009
Justin Pettett	2,825,000	-	-	836,000	3,661,000
Ryan Messer	1,906,925	-	-	600,000	2,506,925
Ananda Kathiravelu	75,000	-	-		75,000
George Lloyd	1,350,000	-	-	1,730,000	3,080,000
Total	6,156,925	-	-	3,166,000	9,322,925

* Net Change Other refers to shares purchased or sold during the financial year and also includes shares acquired pursuant to the non-renounceable rights issue announced to shareholders on 31 August 2010.

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NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group	
	2010	**2009**
	$	**$**
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	77,014	79,615
— taxation services	5,460	8,070
	82,474	87,685

NOTE 7: EARNINGS PER SHARE

		Consolidated Group	
		2010	**2009**
		$	**$**
a.	Reconciliation of earnings to profit or loss		
	Loss	(3,164,600)	(4,270,250)
	Earnings used to calculate basic EPS	(3,164,600)	(4,270,250)
		No.	**No.**
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	187,706,452	127,156,180
	Weighted average number of options outstanding	473,973	1,550,296
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	188,180,425	128,706,476

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2010	**2009**
	$	**$**
Cash at bank and in hand	527,114	225,604
Short-term bank deposits	2,034,949	5,229,003
	2,562,063	5,454,607

The effective interest rate on short-term bank deposits was 4.4% (2009: 3.2%).

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	2,562,063	5,454,607
	2,562,063	5,454,607

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NOTE 9: TRADE AND OTHER RECEIVABLES

	Consolidated Group 2010 $	Consolidated Group 2009 $
CURRENT		
Trade receivables	602,345	1,204,399
Provision for impairment of receivables	(134,569)	-
	467,776	1,204,399
Other receivables:		
- GST receivable	26,576	33,379
- Operating bond	122,995	-
	617,347	1,237,778

A reconciliation of the movement in the provision for impairment of receivables is shown below:

	2010 $	2009 $
Opening Balance	-	-
- additional provision	134,569	-
Closing Balance	134,569	-

There are no balances within trade and other receivables that contain assets that are impaired or are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Note	Consolidated Group 2010 $	Consolidated Group 2009 $
Associated companies	10a	5,075,331	8,623,033

Interests are held in the following associated unincorporated companies

Name	Principal Activities	Country of Incorporation	Ownership Interest 2010 %	Ownership Interest 2009 %	Carrying amount of investment 2010 $	Carrying amount of investment 2009 $
Unlisted:						
Turner Bayou, LLC*	Oil and Gas Exploration and Drilling	United States of America	80.80	80.80	5,075,331	5,776,156
Avoyelles Energy LLC	Oil and Gas Exploration and Drilling	United States of America	-	52.00	-	2,846,877
					5,075,331	8,623,033

*The Company does not have control of Turner Bayou LLC as percentage of voting power is not in proportion to ownership.

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During the year, the Company withdrew as a member of Avoyelles Energy LLC under an agreement which assigned the leasehold interests previously held by Avoyelles Energy LLC directly to Pryme Oil and Gas Inc LLC in proportion to the working interest held by the Company. Accordingly the leasehold assets, previously owned by virtue of membership of Avoyelles Energy LLC, are now included in working interests (Note 14).

		Consolidated Group	
		2010 **$**	**2009** **$**
a.	Movements During the Year in Equity Accounted Investment in Associated Companies		
	Balance at beginning of the financial year	8,623,033	10,369,973
Add:	New investments during the year	-	494,719
	Share of associated company's loss after income tax	(733)	(19,273)
Less:	Transfer to working interest	(2,501,767)	-
	Adjustment for foreign currency movement	(1,045,202)	(2,222,386)
	Balance at end of the financial year	5,075,331	8,623,033
b.	**Equity accounted profit/(loss) of associates are broken down as follows:**		
	Share of associate's loss before income tax expense	(733)	(19,273)
	Share of associate's income tax expense	-	-
	Share of associate's loss after income tax	(733)	(19,273)
c.	**Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates**		
	Current assets	2,232	3,725
	Non-current assets	5,604,358	11,651,353
	Total assets	5,606,590	11,655,078
	Current liabilities	29	99,233
	Non-current liabilities	-	-
	Total liabilities	29	99,233
	Net assets	5,606,561	11,555,845
	Revenues	-	-
	Loss after income tax of associates	701	32,018

d. The reporting date of the associated companies is 31 December.

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NOTE 11: CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest (%)*	
		2010	**2009**
Subsidiaries of Pryme Oil and Gas Limited:			
Pryme Oil and Gas Inc	US	100%	100%
- Pryme Energy LLC	US	100%	100%
- Trident Minerals LLC	US	100%	100%
- Pryme Royalty Holdings LLC	US	100%	100%
- Pryme Mineral Holdings LLC	US	100%	100%
- Pryme Oil and Gas LLC	US	100%	-

* Percentage of voting power is in proportion to ownership

During the year, Pryme Oil and Gas LLC was established to hold the Company's working interest in the Turner Bayou project.

NOTE 12: INTERESTS IN JOINTLY CONTROLLED ENTITIES

Entities included below are subject to joint control as a result of governing contractual arrangements.

	Country of Incorporation	Principal Activity	Reporting Date	Ownership Interest (%)	
				2010	**2009**
Pryme Lake Exploration LLC	US	Oil Exploration	31 Dec	50%	50%

	In Aggregate		Group Share	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Net Assets of Jointly Controlled Entities				
Current assets	97,792	52,272	48,896	26,136
Non-current assets	4,453,445	1,999,091	2,226,723	999,545
Current liabilities	50,912	26,314	25,456	13,157
Non-current liabilities	-	-	-	-
Net assets	4,500,325	2,025,049	2,250,163	1,012,524
Revenues	801,458	-	400,729	-
Profit/(Loss) after income tax	575,094	1,281	287,547	640

Financials

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group 2010 $	Consolidated Group 2009 $
PLANT AND EQUIPMENT		
Office Equipment:		
At cost	59,770	45,423
Accumulated depreciation	(32,990)	(20,957)
	26,780	24,466
Drilling Equipment:		
At cost	598,729	418,435
Accumulated depreciation	(59,275)	-
	539,454	418,435
Other Equipment:		
At cost	174,413	-
Accumulated depreciation	(18,317)	-
	156,096	-
TOTAL		
At cost	832,912	463,858
Accumulated depreciation	(110,582)	(20,957)
	722,330	442,901

a. **Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office Equipment $	Drilling Equipment $	Other Equipment $	Total $
Consolidated Group:				
Balance at 1 January 2009	27,757	-	-	27,757
Foreign currency movement	(2,999)	-	-	(2,999)
Additions	13,137	418,435	-	431,572
Disposals	-	-	-	-
Depreciation expense	(13,429)	-	-	(13,429)
Balance at 31 December 2009	24,466	418,435	-	442,901
Foreign currency movement	376	(45,309)	112	(44,821)
Additions	13,971	225,603	174,301	413,875
Disposals	-	-	-	-
Depreciation expense	(12,033)	(59,275)	(18,317)	(89,625)
Balance at 31 December 2010	26,780	539,454	156,096	722,330

Financials

NOTE 14 WORKING INTEREST

	Consolidated Group 2010 $	Consolidated Group 2009 $
Exploration expenditure capitalised		
– Exploration and evaluation phases	8,021,574	2,127,925
– Less exploration costs written off	(695,512)	(1,128,523)
Production phase	11,351,635	12,044,983
Accumulated depletion	(3,748,398)	(2,750,753)
Intangible exploration costs capitalised*	227,842	1,652,584
Less intangible costs written off	(227,842)	(1,393,311)
Total Exploration Expenditure	14,929,299	10,552,905

* Intangible assets comprise the acquisition costs of seismic data. Recoverability of the carrying amount of these costs is dependent on either the successful exploration in the area of interest to which the seismic data relates or subsequent sale of the asset to third parties.

NOTE 15: TRADE AND OTHER PAYABLES

	Consolidated Group 2010 $	Consolidated Group 2009 $
Current		
Other payables and accrued expenses	630,318	182,243
	630,318	182,243

NOTE 16: ISSUED CAPITAL

	Consolidated Group 2010 $	Consolidated Group 2009 $
225,057,754 (2009: 178,801,337) fully paid ordinary shares	42,109,858	38,409,345
Capital raising costs	(2,190,869)	(2,009,698)
	39,918,989	36,399,647

	2010	2009
a. Ordinary shares		
At the beginning of reporting period	178,801,337	111,056,732
Shares issued during the year		
– 10 September 2009		16,658,509
– 2 October 2009		21,725,948
– 22 October 2009		29,360,148
– 6 September 2010	21,250,000	
– 17 November 2010	9,789,488	
– 6 December 2010	6,619,051	
– 9 December 2010	8,597,878	
At reporting date	225,057,754	178,801,337

Financials

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

b. Options

	Consolidated Group	
	2010	**2009**
20 cent options		
At the beginning of the period	-	2,118,000
Less: 20 cent options exercised/lapsed		
- 30 June 2009	-	(2,118,000)
Total 20 cent options	-	-
40 cent options		
At the beginning of the period	-	500,000
Less: 40 cent options exercised/lapsed		
- 31 December 2009	-	(500,000)
Total 40 cent options	-	-
15 cent options		
At the beginning of the period	-	-
Add: 15 cent options issued		
- 19 April 2010	500,000	-
Total 15 cent options	500,000	-

NOTE 17: RESERVES

a. Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

b. Option Reserve

The option reserve records items recognised as expenses on valuation of directors share rights/options under the Directors Incentive Option Plan and the Pryme Long Term Incentive Plan.

Financials

NOTE 18: CAPITAL AND LEASING COMMITMENTS

		Consolidated Group 2010 $	Consolidated Group 2009 $
a.	**Operating Lease Commitments**		
	Non-cancellable operating leases contracted for but not capitalised in the financial statements		
	Payable — minimum lease payments		
	— not later than 12 months	5,187	8,855
	— between 12 months and 5 years	-	7,456
	— Greater than 5 years	-	-
		5,187	16,311
b.	**Capital Expenditure Commitments contracted for**		
	Expenditure on working interest	364,738	186,513
		364,738	186,513
	Payable:		
	— not later than 12 months	364,738	186,513
	— between 12 months and 5 years	-	-
	— greater than 5 years	-	-
		364,738	186,513

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2010 (2009: Nil)

NOTE 20: SEGMENT REPORTING

Operating Segments — Geographical Segments

The Consolidated group comprises the following two operating segments defined geographically:

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

Accounting Policies

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

Financials

2010	Australia $	United States of America $	Eliminations $	Total $
Income				
Oil and Gas Revenue	-	2,750,268	-	2,750,268
Intercompany Management Fee	1,486,379	-	(1,486,379)	-
Other	134,800	385,863	-	520,663
Expenditure				
Production Expenses	-	(945,269)	-	(945,269)
Depletion, depreciation and exploration expenditure written off	(4,685)	(2,592,331)	-	(2,597,016)
Employee Related Expenses	(234,992)	(453,176)	-	(688,168)
Intercompany Management Fee	-	(1,486,379)	1,486,379	-
Other	(1,084,642)	(1,120,436)	-	(2,205,078)
Segment result	**296,860**	**(3,461,460)**	**-**	**(3,164,600)**
Assets	39,215,527	21,911,737	(37,122,720)	24,004,544
Liabilities	82,553	37,670,387	(37,122,622)	630,318

2009	Australia $	United States of America $	Eliminations $	Total $
Income				
Oil and Gas Revenue	-	1,962,367	-	1,962,367
Intercompany Management Fee	1,107,653	-	(1,107,653)	-
Other	87,307	13,127	-	100,434
Expenditure				
Production Expenses	-	(531,125)	-	(531,125)
Depletion, depreciation and exploration expenditure written off	(5,698)	(3,912,022)	-	(3,917,720)
Employee Related Expenses	(205,110)	(36,178)	-	(241,288)
Intercompany Management Fee	-	(1,107,653)	1,107,653	-
Other	(963,878)	(679,040)	-	(1,642,918)
Segment result	**20,274**	**(4,290,524)**	**-**	**(4,270,250)**
Assets	35,332,462	20,971,650	(29,943,711)	26,360,401
Liabilities	72,582	30,053,260	(29,943,599)	182,243

Exploration Expenditure Write-offs

Exploration costs previously capitalised amounting to $814,694 (2009: $2,889,917) relating to the United States of America Segment was recognised as an expense for the year ended 31 December 2010.

Financials

NOTE 21: CASH FLOW INFORMATION

		Consolidated Group	
		2010 $	2009 $
a.	**Reconciliation of Cash Flow from Operations with Profit after Income Tax**		
	Loss after income tax	(3,164,600)	(4,270,250)
	Non-cash flows in profit		
	Depreciation, depletion and amortisation	1,780,322	1,027,803
	Share options expensed	56,893	22,539
	Write-off of capitalised expenditure	816,694	2,889,917
	Loss on sale of assets	291,244	-
	Movement in foreign currency reserve	11,111	(74,615)
	Share of associated companies net loss after income tax and dividends	733	19,273
	Changes in assets and liabilities		
	(Increase)/decrease in trade and term receivables	(29,507)	73,912
	(Increase)/decrease in prepayments	(24,401)	(5,007)
	Increase/(decrease) in trade payables and accruals	(767)	(31,669)
	Cashflow from operations	(262,278)	(348,097)

b. Credit Standby Arrangements with Banks

There are no credit or standby arrangements with financiers as at 31 December 2010 (2009: Nil)

NOTE 22: EVENTS AFTER THE BALANCE SHEET DATE

In the interval between the end of the financial year and the date of the report no matter or circumstance has arisen that has significantly affected, or may significantly affect the Consolidated Group's operations, results or the state of affairs in future financial years:

NOTE 23: RELATED PARTY TRANSACTIONS

		Consolidated Group	
	Note	2010 $	2009 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.			
Transactions with related parties:			
Key Management Personnel	5(b)	481,821	461,132

Financials

NOTE 24: FINANCIAL RISK MANAGEMENT

a. Financial Risk Management Policies

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries and leases.

i. Treasury Risk Management

Senior executives of the group regularly analyse financial risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The executive's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the Board on a regular basis.

ii. Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are foreign currency risk, liquidity risk, credit risk and price risk.

Interest Rate Risk

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

Foreign Currency Risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The group is also exposed to fluctuations in foreign currencies arising from the loans advanced by the Australian based parent entity to its United States based subsidiaries. Foreign currency gains/losses are recorded by the subsidiaries and eliminated on consolidation via the foreign currency translation reserve.

Liquidity Risk

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

Credit Risk

The maximum exposure to credit risk is the carrying amount of receivables, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk is managed on a group basis. It arises from exposures to customers as well as through deposits with financial institutions.

The group manages credit risk by actively assessing the rating quality and liquidity of counter parties including:
- only utilising banks and financial institutions with an 'A' rating;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and

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

Price Risk

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

b. Financial Instruments composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period and maturity, as well as management's expectations of the settlement period for all other financial instruments. As such amounts may not reconcile to the balance sheet.

Financials

2010	Average Interest Rate	Variable Interest Rate $	Fixed Interest Rate: Less than 1 year $	Fixed Interest Rate: 1 to 5 years $	Non Interest Bearing $	Total $
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	4.4%	2,562,063	-	-	-	2,562,063
Receivables	-	-	-	-	617,347	617,347
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(630,318)	(630,318)
Total		2,562,063	-	-	(12,971)	2,549,092

2009	Average Interest Rate	Variable Interest Rate $	Fixed Interest Rate: Less than 1 year $	Fixed Interest Rate: 1 to 5 years $	Non Interest Bearing $	Total $
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	3.2%	5,454,607	-	-	-	5,454,607
Receivables	-	-	-	-	1,237,778	1,237,778
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(182,243)	(182,243)
Total		5,454,607	-	-	1,055,535	6,510,142

c. Net Fair Values

The net fair values of:

– Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.

– Other assets and other liabilities approximate their carrying value.

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

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

d. Sensitivity Analysis

Interest Rate Risk, Foreign Currency Risk and Price Risk

The group has performed sensitivity analysis relating to its exposure to price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Financials

Price Risk Sensitivity Analysis

At 31 December 2010, the effect on profit and equity as a result of changes in the price risk, with all other variables remaining constant would be as follows:

	Consolidated Group	
	2010	**2009**
	$	**$**
Change in profit		
– Increase in oil/gas price by 10%	224,619	162,456
– Decrease in oil/gas price by10%	(224,619)	(162,456)

The above price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

NOTE 25: COMPANY DETAILS

The registered office and principal place of business of the Company is:

Pryme Oil and Gas Limited
Level 7, 320 Adelaide Street
Brisbane QLD 4000

The principal place of business of the US subsidiaries is:

Pryme Oil and Gas Inc
1001 Texas Ave, Suite 1400 Houston
Texas 77002, United States of America

Financials

DIRECTORS' DECLARATION

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

   (a) the Financial Statements and Notes as set out on pages 33 to 60 are in accordance with the Corporations Act 2001, including:

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

      ii. giving a true and fair view of Pryme's financial position as at 31 December 2010 and of their performance as represented by the results of their operations and their cash flows for the year ended on that date; and

   (b) the remuneration disclosures that are included on pages 24 to 30 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

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

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 31 December 2010.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland.
23 February 2011

Independent Auditor's Report

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Offices

Brisbane
Burdekin
Cairns
Innisfail
Toowoomba
Townsville

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PRYME OIL AND GAS LIMITED AND CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying financial report of Pryme Oil and Gas Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

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

Moore Stephens (Queensland) Audit Pty Ltd ABN 62 126 208 179
Level 25, 71 Eagle Street, Brisbane, Queensland, 4000 Australia
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Independent Auditor's Report

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Opinion

In our opinion:

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

i. giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the period ended on that date; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in paragraph 12 of the directors' report for the period ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Pryme Oil and Gas Limited for the period ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of Pryme Oil and Gas Limited for the period ended 31 December 2010 included on Pryme Oil and Gas Limited's website. The company's directors are responsible for the integrity of Pryme Oil and Gas Limited's website. We have not been engaged to report on the integrity of the company's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Moore Stephens

Moore Stephens
Chartered Accountants

Michael J McDonald
Director

Signed in Brisbane, Australia on 23 February 2011

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Shareholder Information
AS AT 1 MARCH 2011

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

1. Substantial shareholders

The number of securities held by substantial shareholders and their associates are set out below:

Fully paid Ordinary Shares

Name	Number	%
Panorama Ridge Pty Ltd	39,183,206	17.41
Belmont Park Investments Pty Ltd	38,817,320	17.24

2. Number of security holders and securities on issue

Pryme has issued the following securities:

a) 225,611,182 fully paid ordinary shares held by 1,515 shareholders;
b) 1,352,675 unlisted Performance Rights held by two holders; and
c) 1,131,754 unlisted Restricted Stock Units held by one holder.

3. Voting rights

Ordinary shares

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

Performance Rights and Restricted Stock Units

The holders of Performance Rights holders and Restricted Stock Units do not have any voting rights on the Performance Rights and Restricted Stock Units held by them.

4. Distribution of security holders

(a) Quoted securities

Category	Fully paid Ordinary shares		
	Holders	Shares	%
1 - 1,000	56	33,066	0.01
1,001 - 5,000	279	865,470	0.38
5,001 - 10,000	274	2,386,384	1.06
10,001 - 100,000	690	24,948,735	11.06
100,001 and over	216	197,377,527	87.49
Total	1,515	225,611,182	100.00

(b) Unquoted securities

Category	Performance Rights			Restricted Stock Units		
	Holders	Performance Rights	%	Holders	Restricted Stock Units	%
1 - 1,000	-	-	-	-	-	-
1,001 - 5,000	-	-	-	-	-	-
5,001 - 10,000	-	-	-	-	-	-
10,001 - 100,000	-	-	-	-	-	-
100,001 and over	2	1,352,675	100	1	1,131,754	100
Total	**2**	**1,352,675**	**100**	**1**	**1,131,754**	**100**

Shareholder Information
AS AT 1 MARCH 2011

5. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 219. 3,334 shares comprise a marketable parcel at the Pryme closing share price of $0.15.

6. Unquoted securities

(a) Performance Rights

1,352,675 unlisted Performance Rights have been issued to two holders and remain unexercised. Details of holders of 20% or more of the Performance Rights are as follows:

Name	Number	%
Justin Pettett	1,131,754	83.66

(b) Restricted Stock Units

1,131,754 unlisted Restricted Stock Units have been issued to 1 holder and remain unexercised. Details of holders of 20% or more of the options are as follows:

Name	Number	%
Ryan Messer	1,131,754	100

7. On market buy-back

There is no current on market buy-back.

8. Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

	Name	No. of shares	%
1	Belmont Park Investments Pty Ltd	38,244,308	16.95
2	Panorama Ridge Pty Ltd	37,459,206	16.60
3	Anthony Rispoli	10,627,894	4.71
4	Peter Daniel Adams	5,431,737	2.41
5	Anglo Energy Company Inc	4,565,163	2.02
6	Pettett Pty Ltd <Pettett Family A/C>	3,825,000	1.70
7	Jojeto Pty Ltd <Lloyd Super Fund A/C>	3,665,000	1.62
8	Forstu Pty Ltd <Barlow Superfund A/C>	3,507,500	1.55
9	National Nominees Ltd	3,495,180	1.55
10	Citicorp Nominees Ltd	2,844,480	1.26
11	Sourcerock Investments LLC	2,820,291	1.25
12	Big Art Investments Pty Ltd	2,176,886	0.96
13	Finance Associates Pty Ltd < Super Fund A/C>	2,075,318	0.92
14	Geoffrey Alan Maynard + Alison Maynard	1,660,821	0.74
15	James Stewart	1,650,000	0.73
16	BT Portfolio Services Ltd <N J Family Shares 1A/C>	1,635,842	0.73
17	B & M Jackson Pty Ltd <Jackson Superfund A/C>	1,575,000	0.70
18	Australian Global Capital Pty Ltd	1,500,000	0.66
19	John Franklyn Benjamin	1,406,250	0.62
20	Anthony Haggarty <Haggarty Superfund A/C>	1,400,000	0.62
		131,565,876	**58.32**

Corporate Directory

Directors

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

Company Secretary

Ms Swapna Keskar

Registered and Principal Office

Level 7, 320 Adelaide Street
BRISBANE QLD 4000

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Website: www.prymeoilandgas.com

Share Registry

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Phone: +61 2 8280 7454
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Auditors

Moore Stephens
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Phone: +61 7 3317 7851
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Attorneys

Winstead P.C.
1100 J.P. Morgan Chase Tower
600 Travis Street
HOUSTON Texas 77002
United States of America

Stock Exchanges

Australian Securities Exchange Limited (ASX)
Code: PYM

International OTCQX
Code: POGLY

Australian Company Number

117 387 354

Australian Business Number

75 117 387 354

Notes

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OIL AND GAS

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