Appendix 4E
Preliminary Final Report
Results for Announcement to the Market

1. Company details and reporting period

Name of Entity and ABN	Pryme Oil and Gas Limited (ABN 75 117 387 354) and its subsidiary, Pryme Oil and Gas Inc (Consolidated Entity)
Reporting Period	31 December 2006
Previous Corresponding Period	Not Applicable

2. Results for Announcement to the Market

	Up/Down	% Change	Year ended 31 December 2006 A$
Revenue from ordinary activities	Not Applicable		1,053,387
Profit/(loss) after tax attributable to the members			(2,047,615)
Net Profit/(loss) for the period attributable to members			(2,047,615)

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Please refer to paragraph 15 (below)

Dividends (Distribution)	Amount per security	Franked amount per security
Final Dividend	NIL & Not Applicable	
Interim Dividend		
Previous corresponding period		
Record date for determining entitlements for the dividend		

3. Annual General Meeting

Tuesday, 17 April 2007
10.30 am
The Oak Room Level 4
The Brisbane Club 241 Adelaide Street
Brisbane Queensland

4. Income statement with notes to the statement

Refer to page 15 of the 2006 Financial Statements and accompanying notes.

5. Balance sheet with notes to the statement

Refer to page 16 of the 2006 Financial Statements and accompanying notes.

6. Statement of cash flows with notes to the statement

Refer to page 18 of the 2006 Financial Statements and accompanying notes.

7. Dividends

No dividends was paid, recommended for payment nor declared during the year in review.

8. Dividend/Distribution Reinvestment Plan (DRP)
The Consolidated Entity does not have in operation a DRP.

9. Statement of retained earnings
Refer to page 16 of the 2006 Financial Statements.

10. Net Tangible assets (NTA) per security

	2006 A$	**2005 A$**
NTA per security	0.22	Not Applicable

11. Entities over which control has been gained or lost during the period
Refer to page 30 of the 2006 Financial Statements

12. Associates and joint venture entities
Refer to page 26 of the 2006 Financial Statements

13. Other significant information
Not applicable.

14. Accounting standards used for foreign entities
Not applicable.

15. Commentary on results for the period
The accumulated loss of $2,047,615 is a result of the exploratory stage of Pryme's projects which is typical given the company's infancy. During the following year, further production is to occur at the La Salle Parish Project while the Turner Bayou 3D Seismic and the Raven Projects are expected to begin producing in 2007. Strengthened results are therefore expected for the same period next year.

Furthermore, in accordance with the Accounting Standards, the costs of the equity (options and rights) issued to key management personnel greatly attributed to the accumulated loss. This remuneration is performance based; if such hurdles are not achieved then all entitlements to ordinary shares lapse and the necessary reversals in the financial statements will be made.

16. Status of Audit
The 2006 Financial Statements have been audited. The Independent Auditor's Report is set out on page 32 of the 2006 Financial Statements

17. Dispute or qualifications if not yet audited
Not applicable

18. Dispute or qualifications if audited
Not applicable

Justin Pettett
Managing Director

28 February 2007

PRYME OIL AND GAS LIMITED AND CONTROLLED ENTITY

ABN: 75 117 387 354

Annual Financial Report For The Period Ended 31 December 2006

PRYME OIL AND GAS LIMITED AND CONTROLLED ENTITY

31 December 2006

ABN: 75 117 387 354

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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 subsidiary Pryme Oil and Gas Inc (together referred to as the Consolidated Entity) for the financial year ended 31 December 2006 and the Independent Audit Report thereon.

1. Directors

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

(a) John Dickinson - Chairman
Independent Non–Executive Director (Appointed 1 December 2005)

Mr Dickinson graduated from Tulane University with a degree in Business Administration and has 31 years experience in energy sector drilling, completions, production operations and project finance, primarily in the areas of oil, natural gas, coal bed methane resource development, gas gathering, gas compression, gas transmission and project finance of combustion-turbine power plants. He has also been involved in the co-development of four electric power projects in the U.S, integrated with the development of natural gas as fuel. Mr Dickinson has been published several times in industry journals and has recently represented venture capital funds in London, Connecticut and Hong Kong in the investigation of new drilling technologies developed in the U.S.

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

(b) Justin Pettett - Managing Director and Chief Executive Officer
Executive Director (Appointed 1 December 2005)

Mr Pettett has worked successfully as a business analyst, broker and Managing Director of medium sized businesses for the past 12 years, the last six in the US oil and natural gas industry. He has widespread industry experience, specialising in oil, natural gas and coal bed methane acquisitions and development and extensive commercial knowledge in financial analysis, business development, investor relations, capital aggregation and financial and administrative management. Mr Pettett also has experience dealing and advising clients in Australia and worldwide on a range of commodities including base, precious metals and energy.

Mr Pettett has broad experience as a public company director with positions in senior management as follows:

- Managing Director, Chief Executive Officer and co-founder of the Sterling Energy Group of companies, North American oil and natural gas operations and portfolio managers;
- Director of Arkoma Wilcox Limited, an Australian public US oil and gas exploration company; and
- Vice-President and Chief Operations Officer of Northern Alliance Energy Inc. the wholly owned subsidiary of Anglo Energy Company Inc., a US-based energy development company.

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

(c) Ryan Messer - Chief Operations Officer
Executive Director (Appointed 1 December 2005)

Mr. Messer graduated from the University of Central Florida, with a Bachelor of Business majoring in Marketing and Finance. He has 10 years of experience in international corporate business, the last five years being in the energy sector, managing field operations and assisting in the formation of an evaluation team for prospects. He has been directly involved in the drilling and development of over 124 wells spread across five states throughout North America. His expertise is in the area of project management, research and design, partner relationship development, asset allocation and risk assessment, investment and company management and corporate strategic direction.

Mr. Messer is President and co-founder of the Sterling Energy Group of Companies and also holds directorships for the following public and private affiliated companies:

- Arkoma Wilcox Limited;
- Sterling Energy Group Inc.; and
- Northern Alliance Energy Inc.

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

(d) Ananda Kathiravelu
Non–Executive Director (Appointed 1 December 2005)

Mr Kathiravelu holds a Bachelor of Business and a Graduate Diploma of Applied Finance and Investment. He is also an associate of the Securities Institute of Australia. He has over 15 years experience in the financial services funds management and stockbroking industries. His areas of expertise include corporate advice, capital raising, mergers and acquisitions with primary focus on the small cap and emerging business sectors.

Mr. Kathiravelu also holds directorships in the following ASX listed companies:

- First Capital Group Limited (11 December 2001 – current) (Executive Chairman)
- Transit Holdings Limited (listed 18 December 2006) (10 August 2006 – current) (Non-Executive Chairman)

(e) Philip Judge
Non–Executive Director (Appointed 25 September 2006)

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

Mr Judge is also been involved with the following companies:

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

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

2. Company Secretary

Mr Matthew Fogarty is the Company Secretary of Pryme.

Mr Fogarty is the principal of Fogarty Partners, a Chartered Accounting and Business Advisory practice. He has over 15 years experience in providing tax and business advisory services to small and medium enterprises. In addition to this he has provided company secretarial services to a number of listed and unlisted companies.

Mr Fogarty holds a Bachelor of Business, is a Chartered Accountant, a member of the Tax Institute of Australia and a Registered Tax Agent.

3. Advisory Board

In addition, there is an established Advisory Board which is a resource that management of Pryme can refer matters to at any time for their input and professional advice. Members of the Advisory Board are:

(a) Donald Ellison – Advisory Director for Petroleum Engineering
Mr. Ellison graduated from Missouri School of Mines with a Bachelor of Science in Petroleum Engineering. His singular domestic career has involved the management of the third largest oil and gas reserve in Texas, 2 significant oil and gas discoveries in Oklahoma that each has cumulative production of several million barrels of oil and several billion cubic feet of natural gas, a successful gas/condensate resource development project in East Texas and has been responsible for reserve engineering, production optimisation, design and installation of a vast gas and oil infrastructure on many giant oil and gas fields in Southwest Texas.

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

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

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

4. Principal Activities

The principal activities of the Consolidated Entity 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.

5. Review of Operations and State of Affairs

A review of, and information about, the Consolidated Entity'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 Entity will appear in the 2007 Annual Report. Other than the official admission to the Australian Securities Exchange Limited of Pryme Oil and Gas Limited, in the opinion of the Directors, there were no other significant changes in the state of affairs of the Consolidated Entity.

6. Events Subsequent to Reporting Date

On 4 January 2007, 200,000 options were converted to ordinary fully paid equity shares. These options had an exercise price of 20 cents.

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

7. Likely Developments

The Consolidated Entity intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America.

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

8. Environmental Regulations and Performance

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

There have been no significant known breaches of the Consolidated Entity's licence pr permit conditions. Furthermore, no government agency has notified the Consolidated Entity of any environmental breaches during the period ended 31 December 2006.

9. Dividends

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

10. Options and Rights

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

Unissued Shares Under Option

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

Expiry date	Number of options	Exercise Price ($)
30 June 2008	4,475,000	0.20
30 June 2008	36,354,502	0.40
Total	**40,829,502**	

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

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

Outstanding Rights

As at the date of this Report, there were 11,900,000 rights outstanding under the Pryme Directors' Incentive Option Plan. Options will only be granted if Pryme achieves certain performance hurdles as set out in pages 7 - 8.

As at the date of this Report, there were 4,760,000 rights outstanding under the Pryme Directors' Share Incentive Plan. Rights will only vest if Pryme achieves certain performance hurdles as set out in page 8.

Shares issued on exercise of options

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

Date	Number of shares	Exercise Price ($)
29 September 2006	325,000	0.20
4 January 2007	200,000	0.20
	525,000	

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

11. Directors' Meetings

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

Director	Number of meetings held during the tenure of the director	Number of meetings attended
John Dickinson	16	16
Justin Pettett	16	16
Ryan Messer	16	16
Ananda Kathiravelu	16	16
Philip Judge	3	3[1]

[1] Prior to his appointment as a director, Mr Judge attended two meetings as an invitee.

There are no committees of the Board currently established and hence no meetings of any such committees have taken place.

12. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2006 are as follows:

Director	Ordinary Shares	Options over Ordinary Shares[1]		Rights to Receive Ordinary Shares[2]	American Depository Receipts
		$ 0.20	$0.40		
John Dickinson	1,700,000	3,450,000[5]	566,667	1,380,000	-
Justin Pettett	1,755,000[3]	5,000,000[5]	585,002	2,000,000	-
Ryan Messer	1,700,000	3,450,000[5]	566,667	1,380,000	555[8]
Ananda Kathiravelu	4,727,500	1,303,650[6,7]	1,575,834		-
Philip Judge	4,514,163[4]	413,850[6]	1,504,722		-

[1]Further information on options granted to directors as part of their remuneration is set out on pages 7 - 8.
[2]Further information on rights granted to directors as part of their remuneration is set out on page 7.
[3] On 9 January 2007, Mr Pettett acquired 20,000 fully-paid ordinary shares on-market.
[4] On 8 January 2007, Mr Judge acquired 51,000 fully-paid ordinary shares on-market.
[5.] Options may be granted before 30 June 2009. For further information, refer to pages 7 – 8 of the Remuneration Report.
[6] Options expire 30 June 2008.
[7] Options are registered in the name of First Capital Corporate Limited, a related party of the director.
[8] Equivalent to 11,100 ordinary shares.

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

13. Indemnification and Insurance of Officers and Auditors

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

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, Moore Stephens, Pryme's auditor has the benefit of an indemnity to the extent Moore Stephens reasonably relies on information provided by Pryme which is false, misleading or incomplete. No amount has been paid under this indemnity during the financial year ending 31 December 2006 or to the date of this Report.

Details of the nature of the liabilities covered and the amount of premium paid in respect of Directors' and Officers' insurance policies are not disclosed as such disclosure is prohibited under the terms of the contracts.

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

(a) the non-audit services provided during the financial year by Moore Stephens as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and
(b) any non-audit services provided during the financial year by Moore Stephens as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

i. Moore Stephens services have not involved partners or staff acting in a managerial or decision making capacity within the Consolidated Entity or been involved in the processing or originating of transactions;
ii. a description of all non-audit services undertaken by Moore Stephens and the related fees have been monitored by the Board to ensure complete transparency in relation to services provided; and
iii. the declaration required by section 307C of the Corporations Act confirming independence has been received from Moore Stephens.

The auditor's independence declaration under section 307C of the *Corporations Act* is set out on page 15 and forms a part of the Directors' Report for the year ended 31 December 2006.

14. Proceedings on behalf of the Consolidated Entity

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

15. Remuneration Report (Audited)

The information provided here is that required under Section 300A of the Corporations Act, Accounting Standard AASB 124 *Related Party Disclosures* and Principle 9 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The period ended 31 December 2006 is Pryme's first reporting period (commencing 1 December 2005 to 31 December 2006). No comparative amounts (to a prior reporting period) are necessary.

<u>Remuneration Policies and Practices</u>

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

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

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

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

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

<u>Non-Executive Director Remuneration</u>

Fees

Non-executive director fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders in general meeting. The current limit is $300,000. During the year ended 31 December 2006, $127,471 of the fee pool was used.

During the first quarter of 2007, Mr Judge is expected to receive a one-off director's fee of 150,000 options exercisable at 40 cents each on or before 30 June 2008. Upon exercise, these options will convert to listed shares in Pryme on a one-for-one basis. This issue of options will be in lieu of any fee or salary payable to Mr Judge.

Equity Participation

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

In addition, the Chairman participates in the Directors Share Incentive Plan. The allocation of securities under this Plan was to the three founding members of Pryme (being Messrs Dickinson, Pettett and

Messer; such members having been associated with the Sterling Energy Group of Companies). The ongoing contribution of the Chairman is critical to Pryme achieving the performance targets that have been set.

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

Pryme pays Messrs Dickinson and Kathiravelu the statutory superannuation guarantee contribution. Mr Judge does not receive a monetary payment and as such, Pryme makes no superannuation contribution on his behalf.

Executive Director Remuneration

Salaries

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

Equity Participation

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

Retirement Benefits

Executive directors do not receive retirement benefits. There are no termination benefits payable to the executive directors, other than payment of their statutory outstanding annual leave.

Other Benefits

Executive directors do not receive other benefits.

Superannuation

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

Relationship between Policy and Pryme's Performance - audited

The salary and fees received by directors are not specifically tied to Pryme's performance; however are attributable to individual performance in terms of the executive directors.

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

Description	**Rationale**
Directors Incentive Option Plan (DIOP) Under this Plan, directors may receive up to a number of options in three tranches depending on the achievement of the hurdles described below. Vested options may convert to ordinary shares on a one-for-one basis. The exercise price of each of the Options is 20 cents and the expiry date is 30 June 2009. **Phase I** – LaSalle Parish Project **Phase II** – South Central Louisiana 3D seismic play **Performance Period** – 1 July 2006 to 30 June 2009 **Hurdles** –	This Plan is a medium-term incentive that rewards the directors upon Pryme achievement of key project milestones. It is envisaged that with the: • increase in net operating income from the La Salle Parish Project; and • production of oil from South Central Louisiana 3D, Pryme's earnings will increase. Furthermore, achievement of the pre-determined EBIT target will mean that Pryme has in fact increased its earnings. An increase in Pryme's earnings will in-turn,

1. Upon Pryme increasing annual net operating income in the LaSalle Parish Project by 25% (to A$1,250,000 annually calculated monthly) within 12 months from the date of listing Pryme through the drilling of further development wells. 2. Upon the successful conclusion of the 3D data acquisition (receipt of field tapes) the evaluation thereof and the preparation from the 3-D data of at least ten (10) drilling prospects in the South Central Louisiana seismic play and a total of 1,000,000 cubic feet per day (1,000mcfd) or oil equivalent (where the oil equivalent is 6,000 cubic feet (6mcf) equals 1 barrel of oil) net to Pryme is produced within the Performance Period. 3. Upon Pryme achieving an annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the Performance Period.	positively affect shareholder wealth. The Board envisages with time dividends would be paid out of retained earnings and the improvement in Pryme's operations will be reflected in an increasing share price.
<u>Directors Share Incentive Plan (DSIP)</u> Under this Plan, directors are granted rights which may vest upon the satisfaction of the hurdle described below. Vested rights automatically convert to ordinary shares on a one-for-one basis. **Performance Period** – 1 July 2006 to 30 June 2009 **Hurdle –** Pryme achieving annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in, within the Performance Period.	This Plan was introduced to acknowledged the role of the founding member directors and ensure their continual involvement in Pryme over the next few years. In that respect, it is a long-term incentive. Please refer to above discussion in relation to EBIT for the relationship between this element of remuneration, intended company performance and intended shareholder wealth.

Both the Directors Incentive Option Plan and Director Share Incentive Plan have been designed to have a positive impact on Pryme's performance from this financial year onwards.

Given Pryme's admission to the ASX in April 2006, there is no history of Pryme's performance which can be described at this stage.

REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS		TOTAL	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	CASH, SALARY & COMMIS-SIONS	CASH PROFIT SHARE	NON-CASH BENEFIT	TOTAL	SUPER-ANNUATION	LONG TERM BENEFITS	OPTIONS	RIGHTS			
	$	$	$	$	$		$	$	$	%	%
DIRECTORS											
Non-Executive											
JOHN DICKINSON	78,539	-	-	**78,539**	2,492	-	297,114	289,800	**667,945**	87.87	44.48
ANANDA KATHIRAVELU	48,932	-	-	**48,932**	2,454	-	-	-	**51,386**	-	-
PHILIP JUDGE[2]	-	-	-	-	-	-	-	-	-	-	-
Executive											
JUSTIN PETTETT	124,913	-	-	**124,913**	5,286	-	430,600	420,000	**980,799**	86.73	43.90
Managing Director											
RYAN MESSER	106,325	-	-	**106,325**	3,998	-	297,114	289,800	**697,237**	84.18	42.61
Chief Operations Officer											
TOTAL	**358,709**			**358,709**	**14,230**		**1,024,828**	**999,600**	**2,397,367**		

FAIR VALUE OF OPTIONS – FACTORS AND ASSUMPTIONS - AUDITED

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

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

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

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

The options, if granted, are exercisable between 21 April 2007 and 30 June 2009, upon the satisfaction of those performance hurdles as set out on pages 7 - 8.

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

FAIR VALUE OF SHARES – FACTORS AND ASSUMPTIONS - AUDITED

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

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

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

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – AUDITED

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

Name	Year	Held at the beginning of the year	Granted as Remuneration	Exercised	Lapsed	Held at the end of the Financial year	Vested during the year	Vested and exercisable as at 31 December 2006
Executive Directors								
Justin Pettett	2006	-	5,000,000[1]	-	-	5,000,000	-	-
Ryan Messer	2006	-	3,450,000[1]	-	-	3,450,000	-	

(Cont)

Name	Year	Held at the beginning of the year	Granted as Remuneration	Exercised	Lapsed	Held at the end of the Financial year	Vested during the year	Vested and exercisable as at 31 December 2006
Non – Executive Directors								
John Dickinson	2006	-	3,450,000[1]	-	-	3,450,000	-	-
Ananda Kathiravelu	2006	-	-	-	-	-	-	-
Philip Judge	2006	-	-	-	-	-	-	-

[1] The entitlement to options arose on 31 July 2006. Options must be granted prior to and have an expiry date of 30 June 2009. The options will be granted in three tranches from 21 April 2007 until 30 June 2009 with an exercise price of $0.20 and a fair value of $0.1784. The grant of options depends on performance hurdles being attained. Details of the performance hurdles are set out on pages 7 - 8 of the Remuneration Report.

As at 31 December 2006, there were no vested and unexercisable options.

EXERCISE OF OPTIONS GRANTED AS COMPENSATION – AUDITED

During the reporting period, no shares were issued to key management personnel on the exercise of options previously granted as compensation:

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

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

	Entitlement to Options to be granted					**Value yet to vest**	
	Number	Date	% vested in year	% forfeited in year[1]	Financial year in which grant vests	Min ($)[2]	Max ($)[3]
Executive Directors							
Justin Pettett	1,100,000	31.07.06	-	-	31.12.07	-	196,240
	2,150,000	31.07.06	-	-	31.12.09	-	383,560
	1,750,000	31.07.06	-	-	31.12.09	-	312,200
Ryan Messer	759,000	31.07.06	-	-	31.12.07	-	135,406
	1,483,500	31.07.06	-	-	31.12.09	-	264,656
	1,207,500	31.07.06	-	-	31.12.09	-	215,418
Non – Executive Directors							
John Dickinson	759,000	31.07.06	-	-	31.12.07	-	135,406
	1,483,500	31.07.06	-	-	31.12.09	-	264,656
	1,207,500	31.07.06	-	-	31.12.09	-	215,418
Ananda Kathiravelu	-	-	-	-	-	-	
Philip Judge	-	-	-	-	-	-	-

[1]The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest performance criteria not being achieved.
[2]The minimum value of options yet to vest is $nil as the performance criteria may not be met and consequently the option may not vest.

[3]The maximum value of options yet to vest is not determinable as it depends on the achievement of performance hurdles during the period 21 April 2007 – 30 June 2009. The maximum values presented above are based on the fair value of the options over their life calculated at entitlement date using a Black-Scholes Merton model.

ANALYSIS OF MOVEMENTS ON OPTIONS – UNAUDITED

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

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

[1] The related party of the director, First Capital Corporate Limited, received 3,500,000 Options during the year. The primary purpose of the issue was to provide consideration to the recipient for its services in providing marketing, promotion, strategic advice and for its introduction of Pryme to investor networks. Further details are set out in Note 22 to the Financial Statements.

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

SUMMARY OF KEY CONTRACTS TERMS – AUDITED

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

Contract Details	Justin Pettett	Ryan Messer
Duration of contract	Three Years (commencing from 3 March 2006). The term of the Executive Employment Agreement may be extended for a further three years.	Three Years (commencing from 26 June 2006). The term of the Executive Employment Agreement may be extended for a further three years.
Termination notice period	Termination without notice: If the executive is convicted on a major criminal offence that brings Pryme into lasting disrepute. Termination with notice: One month's notice if the executive commits any serious or persistent breach of any of the provisions the relevant Executive Employment Agreement or the executive commits or is found guilty of gross misconduct. Three month's notice if the executive becomes unable to perform his duties due to illness for a prolonged period of time. Voluntary termination: Voluntary termination requires three months' notice by the executive to Pryme.	
Termination payments	Other than outstanding annual leave owing to the executive, there are no termination payments.	

16. Corporate Governance

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

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

Justin Pettett
Managing Director
Brisbane, Queensland
28 February 2007

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

PRYME OIL & GAS LTD ABN 75 117 387 354
AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PRYME OIL & GAS LTD
AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and beliefs, during the period ended 31 December 2006 there have been:

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

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

Moore Stephens (Brisbane) & Partners.

Moore Stephens (Brisbane) & Partners

M J McDonald

Date 28 February 2007.

Brisbane

Moore Stephens (Brisbane) & Partners ABN 28 102 334 945
Level 25, 71 Eagle Street, Brisbane, Queensland, 4000 Australia
GPO Box 2443, Brisbane, Queensland, 4001
Telephone: + 61 7 3317 7877 Facsimile: + 61 7 3100 0028
Email: infob@moorestephens.com.au Web: www.moorestephens.com.au

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2006

	Note	Consolidated Entity 2006 $	Parent Entity 2006 $
Revenue	2	1,016,629	-
Other income	2	36,758	392,526
Accounting and audit fees		(65,058)	(40,811)
Company secretary fees		(18,659)	(18,659)
Corporate retainer		(25,000)	(25,000)
Depletion of work Interest		(340,756)	(1,260)
Directors remuneration		(1,397,766)	(698,850)
Employee benefits expense		(15,215)	(10,389)
Legal expenses		(66,439)	(49,761)
Marketing & advertising		(59,276)	(66,291)
Production costs		(266,411)	-
Professional consulting fees		(122,771)	-
Share registry costs		(29,735)	(29,735)
Stock exchange listing costs		(57,714)	(57,714)
Travel & accomodation expenses		(173,351)	(155,816)
Other expenses		(164,573)	(71,124)
Share of net loss of associate		(298,278)	-
Loss before income tax	3	(2,047,615)	(832,884)
Income tax expense	4	-	-
Net loss for the period		(2,047,615)	(832,884)

Basic earnings per share (cents per share)	7	(5.0)
Diluted earnings per share (cents per share)	7	(4.0)

The accompanying notes form part of these financial statements.

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	Consolidated Entity 2006 $	Parent Entity 2006 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	4,784,829	4,316,445
Trade and other receivables	9	112,712	-
Other current assets		15,514	-
TOTAL CURRENT ASSETS		4,913,055	4,316,445
NON-CURRENT ASSETS			
Trade and other receivables	9	-	12,577,748
Investment accounted for using equity method	10	3,130,786	-
Plant and equipment	11	6,503	6,503
Formation costs		1,077	1,077
Work interest	12	7,385,404	-
TOTAL NON-CURRENT ASSETS		10,523,770	12,585,328
TOTAL ASSETS		15,436,825	16,901,773
CURRENT LIABILITIES			
Trade and other payables	13	439,696	79,257
TOTAL CURRENT LIABILITIES		439,696	79,257
TOTAL LIABILITIES		439,696	79,257
NET ASSETS		14,997,129	16,822,516
EQUITY			
Share capital	15	14,952,733	14,952,733
Reserves		2,092,011	2,702,667
Accumulated loss		(2,047,615)	(832,884)
Parent interest		14,997,129	16,822,516
TOTAL EQUITY		14,997,129	16,822,516

The accompanying notes form part of these financial statements.

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2006

	Ordinary	Accumulated loss	Foreign exchange reserve	Option Reserve	Total
Consolidated Entity	**$**	**$**	**$**	**$**	**$**
Opening Balance	-	-	-	-	-
Shares issued during the year	16,373,852	-	-	-	16,373,852
Transaction costs	(1,421,119)	-	-		(1,421,119)
Options issued during the year	-	-	-	2,702,667	2,702,667
Loss for the period	-	(2,047,615)	-	-	(2,047,615)
Adjustments from translation of foreign controlled entities	-	-	(610,656)	-	(610,656)
Balance at 31 December 2006	14,952,733	(2,047,615)	(610,656)	2,702,667	14,997,129

	Ordinary	Accumulated loss	Foreign exchange reserve	Option Reserve	Total
Parent Entity	**$**	**$**	**$**	**$**	**$**
Opening Balance	-	-	-	-	-
Shares issued during the year	16,373,852	-	-	-	16,373,852
Transaction costs	(1,421,119)	-	-	-	(1,421,119)
Options issued during the year	-	-	-	2,702,667	2,702,667
Loss for the period	-	(832,884)	-	-	(832,884)
Balance at 31 December 2006	**14,952,733**	**(832,884)**	**-**	**2,702,667**	**16,822,516**

The accompanying notes form part of these financial statements.

PRYME OIL AND GAS LIMITED
ABN: 75 117 387 354
CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2006

	Note	Consolidated Entity 2006 $	Parent Entity 2006 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,295,262	-
Payments to suppliers and employees		(3,975,838)	(789,125)
Interest received		36,758	36,758
Net cash provided by (used in) operating activities	20a	(2,643,818)	(752,367)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(7,763)	(7,762)
Purchase of other non-current assets		(1,077)	(1,077)
Purchase of equity accounted investment		(2,832,508)	-
Payment for work interest		(2,991,712)	-
Net cash provided by (used in) investing activities		(5,833,060)	(8,839)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options (Net of share issue cost)		13,261,707	13,261,707
Loans advanced		-	(8,184,056)
Net cash provided by (used in) financing activities		13,261,707	5,077,651
Net increase in cash held		4,784,829	4,316,445
Cash at end of financial period	8	**4,784,829**	**4,316,445**

The accompanying notes form part of these financial statements.

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, Urgent Issues Group (UIG) Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

The financial report of Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc., and Pryme Oil and Gas Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

Basis of Preparation

Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc., and Pryme Oil and Gas Limited as an individual parent entity have prepared financial statements in accordance with the AIFRS.

The period ended 31 December 2006 is Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc.'s, first reporting period commencing from 1 Decmber 2005 to 31 December 2006. Therefore no comparative amounts and reconciliation are necessary between Australian Generally Accepted Accounting Principles (AGAAP) and AIFRS for Pryme Oil and Gas Limited and its controlled entity, Pryme Oil and Gas Inc..

Reporting Basis and Conventions

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

Accounting Policies

(a) Principles of Consolidation

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

Details of the controlled entity is contained in Note 24 to the financial statements. The controlled entity has a 31 December financial year end.

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

(b) Income Tax

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

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

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

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

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Plant and Equipment

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

Plant and equipment

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

Where applicable, the cost of fixed assets constructed within the consolidated entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Office equipment	25%

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

(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) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the parent entity. Any transaction costs arising on the issue of the ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(f) 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 are transferred to entities in the consolidated entity 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.

(g) Financial Instruments

Recognition

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

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

Loans and receivables

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

Held-to-maturity investments
These investments have fixed maturities, and it is the consolidated entity's's intention to hold these investments to maturity. Any held-to-maturity investments held by the consolidated entity's are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets
Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

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

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

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 consolidated entity 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.

(h) Impairment of Assets

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

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

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

(i) 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 consolidated entity's share of post acquisition reserves of its associates.

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Consolidated entity

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

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

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

(k) Employee Benefits

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

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

Contributions are made by the parent entity to an employee superannuation fund and are charged as expenses when incurred.

(l) Provisions

Provisions are recognised when the consolidated entity 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.

(m) 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.

(n) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

(o) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(p) 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.

(q) Capital Raising Costs

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

Critical accounting estimates and judgments

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

Key estimates — Impairment

The consolidated entity assesses impairment at each reporting date by evaluating conditions specific to the consolidated entity 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
No key judgments were made during the year.

Note 2 Revenue

	Consolidated Entity 2006 $	Parent Entity 2006 $
Operating activity		
— Oil and Gas revenue	1,016,629	-
— Interest received	36,758	36,758
— Other revenue	-	355,768
Total revenue	1,053,387	392,526

Note 3 Loss for the Year

Loss before income tax includes the following specific expenses:

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) Expenses		
Production costs - Oil & Gas	266,411	-
Depletion of work interest	340,756	-

Note 4 Income Tax Expense

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) The prima facie tax on profit from ordinary activities before tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)		
— consolidated entity	(614,284)	-
— parent entity	-	(249,865)
	(614,284)	(249,865)
Add:		
Tax effect of:		
— other non-allowable items	46,609	28,333
— share options expensed during the period	328,247	129,180
— effect of current year tax losses derecognised	327,392	180,276
	87,964	87,924
Less:		
Tax effect of:		
— tax deductible equity raising costs	85,267	85,267
— tax deductible formation costs	1,757	1,757
— other tax deductible items	940	900
Total:	-	-

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	
John Dickinson	Appointed as Chairman and Director since 1 December 2005
Ananda Kathiravelu	Director since 1 December 2005
Philip Judge	Director since 25 September 2006

Since the end of the financial year to the date when this report was authorised for issue, there has been no change in the composition of the Board of Directors or to the Chief Executive Officer or any key management personnel.

(b) **Compensation Practices**

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

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

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

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

(c) **Key Management Personnel Compensation**

	Short-term benefits				Post Employment Benefits
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation
2006	$	$	$	$	$
Key Management Person					
Justin Pettett	124,913	-	-	-	5,286
Ryan Messer	106,325	-	-	-	3,998
John Dickinson	78,539	-	-	-	2,492
Ananda Kathiravelu	48,932	-	-	-	2,454
Philip Judge	-	-	-	-	-
	358,709	-	-	-	14,230

	Other long term benefits	Share-based payment		Total	Performance related
	Other	Equity	Options		
2006 (cont.)	$	$	$	$	%
Justin Pettett	-	420,000	430,600	980,799	87%
Ryan Messer	-	289,800	297,114	697,237	84%
John Dickinson	-	289,800	297,114	667,945	88%
Ananda Kathiravelu	-	-	-	51,386	0%
Philip Judge	-	-	-	-	0%
	-	999,600	1,024,828	2,397,367	

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

	Grant Date	Granted No.	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date	Vested No.
Key Management Personnel							
Justin Pettett	31.07.06	5,000,000	0.1784	0.20	21.04.2007	30.06.2009	Nil
Ryan Messer	31.07.06	3,450,000	0.1784	0.20	21.04.2007	30.06.2009	Nil
John Dickinson	31.07.06	3,450,000	0.1784	0.20	21.04.2007	30.06.2009	Nil
Ananda Kathiravelu	-	-	-	-	-	-	-
Philip Judge	-	-	-	-	-	-	-
		11,900,000					-

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

(e) **Shares Issued on Exercise of Compensation Options**
No options exercised during the year that were granted as compensation in prior periods.

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

2006	Balance 01.12.2005	Granted as Compensation	Balance 31.12.06	Total Vested 31.12.06	Total Exercisable 31.12.06	Total Unexercisable 31.12.06
Justin Pettett	-	5,000,000	5,000,000	-	5,000,000	-
Ryan Messer	-	3,450,000	3,450,000	-	3,450,000	-
John Dickinson	-	3,450,000	3,450,000	-	3,450,000	-
Ananda Kathiravelu	-	-	-	-	-	-
Philip Judge	-	-	-	-	-	-
	-	11,900,000	11,900,000	-	11,900,000	-

Number of Rights held by Key Management Personnel granted as compensation

2006	Balance 01.12.2005	Granted as Compensation	Balance 31.12.06	Total Vested 31.12.06	Total Exercisable 31.12.06	Total Unexercisable 31.12.06
Justin Pettett	-	2,000,000	2,000,000	-	2,000,000	-
Ryan Messer	-	1,380,000	1,380,000	-	1,380,000	-
John Dickinson	-	1,380,000	1,380,000	-	1,380,000	-
Ananda Kathiravelu	-	-	-	-	-	-
Philip Judge	-	-	-	-	-	-
	-	4,760,000	4,760,000	-	4,760,000	-

(g) **Shareholdings**
Number of ordinary shares held by Key Management Personnel

2006	Balance 01.12.2005	Received as Compensation	Options Exercised	Net Change Other*	Balance 31.12.06
Key Management Personnel					
Justin Pettett	1,700,000	-	-	35,000	1,735,000
Ryan Messer**	1,700,000	-	-	-	1,700,000
John Dickinson	1,700,000	-	-	-	1,700,000
Ananda Kathiravelu	4,727,500	-	-	-	4,727,500
Philip Judge	4,514,163	-	-	-	4,514,163
	14,341,663	-	-	35,000	14,376,663

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

(h) **Share based payments**

Directors' Incentive Option Plan:

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

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

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

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

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

Note a: The options will be granted upon Pryme increasing annual net operating income in the LaSalle Parish Project by 25% (to A$1,250,000 annually calculated monthly) within 12 months from the date of listing (21.04.07) Pryme through the drilling of further development wells.

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

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

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

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

The options outstanding at 31 December 2006 have an exercise price of $0.20 and a weighted average contractual life of 2.9 years.

During the financial year, no options were exercised.

Directors' Share Incentive Plan:

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

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

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

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

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

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

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

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

The rights at 31 December 2006 have no exercise price and a weighted average contractual life of 3 years.

During the financial year, no rights vested.

Note 6 Auditor's Remuneration

	Consolidated Entity 2006 $	Parent Entity 2006 $
Remuneration of the auditor of the parent entity for:		
Audit services:		
— Auditing or reviewing the financial report	51,000	51,000
Non-audit serives:		
— taxation services	11,806	11,806
Remuneration of auditor of subsidiary for:		
— auditing or reviewing the financial report of subsidiary	13,203	-

Note 7 Earnings per Share

	Consolidated Entity 2006 $
(a) Reconciliation of earnings to profit or loss	
Loss	(2,047,615)
Earnings used in the calculation of dilutive EPS from continuing operations	(2,047,615)
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	42,467,192
Weighted average number of options outstanding	8,451,240
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	50,918,432

Note 8 Cash and Cash Equivalents

	Consolidated Entity 2006 $	Parent Entity 2006 $
Cash at bank and in hand	734,829	266,445
Short-term bank deposits	4,050,000	4,050,000
	4,784,829	4,316,445

The effective interest rate on short-term bank deposits was 6.10% these deposits are at call.

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	4,784,829	4,316,445
Bank overdrafts	-	-
	4,784,829	4,316,445

Note 9 Trade and Other Receivables

	Consolidated Entity 2006 $	Parent Entity 2006 $
CURRENT		
Trade receivables	112,712	-
Provision for impairment of receivables	-	-
	112,712	-

	Consolidated Entity 2006 $	Parent Entity 2006 $
NON-CURRENT		
Receivable from controlled entity	-	12,577,748
Provision for impairment of receivables	-	-
	-	12,577,748

Note 10 Investment in Associate

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Ownership Interest (%)	Carrying Amount of Investment
			2006	2006
				$
Unlisted:				
Turner Bayou, LLC	Oil & Gas exploration & drilling	USA	80.80%	3,130,786
				3,130,786

(a) **Movements during the Year in Equity Accounted Investments in Associated Company**

		2006
		$
Balance at beginning of the financial year		-
Add: New investments during the year		3,429,064
Share of associated company's loss after income tax	10(b)	(298,278)
Balance at end of the financial year		3,130,786

(b) Equity accounted loss of associate are broken down as follows:

Share of associate's loss before income tax expense	(298,278)
Share of associate's income tax expense	-
Share of associate's loss after income tax	(298,278)

(c) **Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associate**

Current assets	720,715
Non-current assets	4,231,359
Total assets	4,952,074
Current liabilities	289,084
Non-current liabilities	5,032,146
Total liabilities	5,321,230
Net assets	(369,156)
Revenues	-
Loss after income tax of associate	(369,156)

Note 11 Plant and Equipment

	Consolidated Entity 2006 $	Parent Entity 2006 $
PLANT AND EQUIPMENT		
Office equipment:		
At cost	7,763	7,763
Accumulated depreciation	(1,260)	(1,260)
	6,503	6,503

(a) **Movements in Carrying Amounts**

Movements in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Office equipment	Total
Consolidated Entity:		
Balance at the beginning of year	7,763	7,763
Depreciation	(1,260)	(1,260)
Carrying amount at the end of year	6,503	6,503
Parent Entity:		
Balance at the beginning of year	7,763	7,763
Depreciation	(1,260)	(1,260)
Carrying amount at the end of year	6,503	6,503

Note 12 Work Interest

	Consolidated Entity 2006 $	Parent Entity 2006 $
NON-CURRENT		
Exploration expenditure capitalised		
— exploration and evaluation phases	7,385,404	-
Total exploration expenditure	7,385,404	-

Note 13 Trade and Other Payables

	Consolidated Entity 2006 $	Parent Entity 2006 $
CURRENT		
Unsecured liabilities		
Other payables and accrued expenses	439,696	79,257
	439,696	79,257

Note 14 Tax

	Consolidated Entity 2006 $	Parent Entity 2006 $
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur		
— temporary differences	381,098	367,644
— tax losses:		
— operating losses	327,392	180,276
	708,490	547,920

Note 15 Issued Capital

	Consolidated Entity 2006 $	Parent Entity 2006 $
70,272,363 ordinary shares	16,373,852	16,373,852
Capital Raising cost	(1,421,119)	(1,421,119)
	14,952,733	14,952,733

(a) **Ordinary Shares**

	Consolidated Entity 2006 No.	Parent Entity 2006 No.
At the beginning of reporting period		
(i) Shares issued during year		
— 01-December-2005	10,100,000	10,100,000
— 30-January-2006	349,750	349,750
— 20-February-2006	287,638	287,638
— 09-March-2006	1,312,500	1,312,500
— 18-April-2006	550,113	550,113
— 18-April-2006	25,959,910	25,959,910
— 19-April-2006	3,300,000	3,300,000
— 20-April-2006	821,000	821,000
— 26-April-2006	4,500,000	4,500,000
— 03-May-2006	475,000	475,000
— 03-May-2006	1,750,000	1,750,000
— 03-May-2006	1,494,090	1,494,090
— 30-June-2006	1,180,363	1,180,363
— 05-July-2006	2,667,000	2,667,000
— 14-September-2006	1,500,000	1,500,000
— 15-September-2006	4,750,000	4,750,000
— 22-September-2006	5,500,000	5,500,000
— 29-September-2006	325,000	325,000
— 03-October-2006	1,500,000	1,500,000
— 12-October-2006	525,000	525,000
— 20-October-2006	225,000	225,000
— 08-November-2006	1,000,000	1,000,000
— 29-December-2006*	200,000	200,000
Total ordinary shares at reporting date	70,272,363	70,272,363

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

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on shares held. On a show of hands every shareholder present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

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

(b) **Options**

20 cent Options issued:		
— 27-July-2006	5,000,000	5,000,000
Less:		
20 cent Options exercised:		
— 29-September-2006	325,000	325,000
— 29-December-2006	200,000	200,000
Total 20 cent Options	4,475,000	4,475,000
40 cent Options:		
— 20-September-2006	13,000,000	13,000,000
— 16-October-2006	674,990	674,990
— 12-December-2006	674,990	674,990
— 12-December-2006	17,328,974	17,328,974
— 15-December-2006	2,000,000	2,000,000
— 27-December-2006	2,675,548	2,675,548
Total 40 cent Options	36,354,502	36,354,502
Total options at reporting date	40,829,502	40,829,502

Note 16 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 employee share options as set out in Note 5.

Note 17 Capital and Leasing Commitments

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) **Capital Expenditure Commitments**		
As at 31 December 2006, the consolidated entity has committed to the following expenditure on work interest		
Payable:		
— Not later than 12 months	3,433,622	-

Note 18 Contingent Liabilities and Contingent Assets

There are no contingent liabilities and contingent assets as at 31 December 2006.

Note 19 Segment Reporting

Business segments

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

Geographical segments

Geographic segment	AUS	USA	Elimination	Consolidation
Income	392,526	1,016,629	(355,767)	1,053,388
Depletion, Depreciation and amortisation	1,260	339,496	-	340,756
Segments results before tax	(832,884)	(1,845,118)	630,387	(2,047,615)
Assets	16,901,773	11,112,800	(12,577,748)	15,436,825
Liabilities	79,257	12,866,882	(12,506,443)	(439,696)

Note 20 Cash Flow Information

	Consolidated Entity 2006 $	Parent Entity 2006 $
(a) **Reconciliation of Cash Flow from Operations with loss after Income Tax**		
Loss after income tax	(2,047,615)	(832,884)
Non-cash flows in loss		
Depreciation	1260	1260
Movement in foreign currency reserve	(610,655)	-
Share of Associate loss	(298,278)	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	(112,712)	-
(Increase)/decrease in prepayments	(15,514)	-
Increase/(decrease) in trade payables and accruals	431,529	71,090
Increase/(decrease) in provisions	8,167	8,167
	(2,643,818)	(752,367)

(b) **Non-cash Financing and Investing Activities**
(i) Share issue
An amount of $2,858,752 of shares were issued during the year as payment of drilling and exploration services.

(c) **Credit Standby Arrangements with Banks**
There are no credit standby arrangements with banks as at 31 December 2006.

(d) **Loan Facilities**
There are no loan facilities arranged at at 31 December 2006.

Note 21 Events After the Balance Sheet Date

(a) The financial report was authorised for issue on 28 February 2007 by the board of directors.

(b) On 4 January 2007, 200,000 shares were issued on conversion of 20 cent options, for which monies were received on 29 December 2006, as disclosed in Note 15.

Note 22 Related Party Transactions

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

Transactions with related parties:

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

(b) **Associated Company**
Refer to Note 10.

(c) **Other Related Parties**
3,500,000 Options were granted to First Capital Corporate Limited (a related party of Pryme Oil & Gas Limited Director Ananda Kathiravelu) with an exercise price of $0.20 per option on 27 July 2006.

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

(e) **Wholly-owned subsidiary**
An amount of $12,577,748 was loaned from Pryme Oil and Gas Limited to Pryme Oil and Gas Inc. throughout the financial period ended 31 December 2006. This loan is repayable in Australian Dollars and on consolidation is eliminated. There is no interest and no set terms of repayment on this loan.

Pryme Oil and Gas Limited on charges costs to Pryme Oil and Gas Inc. who reimbursed a total of $391,345 worth of expenses for the financial period ended 31 December 2006. This amount has been eliminated on consolidation.

Note 23 Financial Instruments

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

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

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

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

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

Liquidity risk
The consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

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

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

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

(b) **Financial Instruments**

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

	Weighted Average Effective Interest Rate	Floating Interest Rate $	Within Year $	1 to 5 years $	Over 5 Years $	Non-interest Bearing $	Total $ 2006
Financial Assets:							
Cash and cash equivalents	6.10	4,784,829	-	-	-	-	4,784,829
Receivables			-	-	-	112,712	112,712
Total Financial Assets		4,784,829	-	-	-	112,712	4,897,541
Financial Liabilities:							
Trade and sundry payables		-	-	-	-	439,696	439,696
Total Financial Liabilities		-	-	-	-	439,696	439,696

Note 24 Controlled Entity

(a) Controlled Entity Consolidated

	Country of Incorporation	Percentage Owned (%)*
Ultimate Parent Entity:		2006
Pryme Oil and Gas Limited	Australia	100
Subsidiary of Pryme Oil and Gas Limited:		
Pryme Oil and Gas Inc	United States	100

* Percentage of voting power is in proportion to ownership

There were no subsidiary acquisition or disposals during the year.

Note 25 Economic Dependency

The controlled entity had made oil and natural gas sales to one independent purchaser for the period from 6 February 2006 to 31 December 2006 and 100% of trade accounts receivable as of 31 December 2006. Trade accounts receivable as of 31 December 2006 resulted from oil and natural gas sales. There is an adequate number of potential purchasers of oil and natural gas volumes such that management believes the loss of this sole purchaser would not have a material adverse effect on the company's results of operations or its financial position.

Note 27 Company Details

The registered office of the parent entity is:
Pryme Oil and Gas Limited
Level 7, 320 Adelaide Street
Brisbane QLD 4000

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

The wholly owned subsidiary of Pryme Oil and Gas Ltd is:
Pryme Oil and Gas Inc.
925B Peachtree Street NE Suite 384
Atlanta Georgia 30309
United States of America

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 15 to 30 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 2006 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 6 to 12 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

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 2006.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland
28 February 2007

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PRYME OIL AND GAS LTD

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Pryme Oil and Gas Ltd., for the period ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our audit opinion.

Moore Stephens (Brisbane) & Partners ABN 28 102 334 945
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GPO Box 2443, Brisbane, Queensland, 4001
Telephone: + 61 7 3317 7877 Facsimile: + 61 7 3100 0028
Email: infob@moorestephens.com.au Web: www.moorestephens.com.au

Audit Opinion

In our opinion, the financial report of Pryme Oil and Gas Ltd. is in accordance with:

(a) the Corporations Act 2001, including:

 (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the period ended on that date; and
 (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Moore Stephens (Brisbane) & Partners

MOORE STEPHENS (BRISBANE) & PARTNERS
Chartered Accountants

M J McDonald
Partner
Brisbane, 28 February 2007