pryme energy

Half Yearly Report June 2012

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Glossary

Bbls/day	Barrels (of oil) per day
Bbls/month	Barrels (of oil) per month
Bcf	Billion Cubic Feet
Bcfe	Billion Cubic Feet Equivalent
BOE	Barrels of Oil Equivalent
Mcf	Thousand Cubic Feet
Mcfd	Thousand cubic feet per day
MMcfd	Million Cubic Feet of Natural Gas per day
NRI	Net Revenue Interest
Tcf	Trillion Cubic Feet
Tcfe	Trillion Cubic Feet Equivalent
WI	Working Interest
3.28 feet	Equals 1 metre

Directors' Report

In accordance with a resolution of the directors, the directors present their Report together with the Financial Report of Pryme Energy Limited ("Pryme" or "the Company") and its subsidiaries (together referred to as the Consolidated Entity) for the half year ended 30 June 2012 (Period) and the Independent Auditor's Review Report thereon:

Directors

The Directors of Pryme at any time during or since the end of the half year ended 30 June 2012 are:

Executive Directors

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

Non-Executive Directors

Mr George Lloyd (Chairman)
Mr Gregory Short

At the Annual General Meeting held on 23 May 2012, Mr Greg Short was re-elected to the Board in accordance with clause 13.2 of Pryme's Constitution.

Review of Operations

The principal activities of Pryme during the Period under review were evaluating, exploring developing and producing oil and gas prospects in the United States of America. There have been no changes in the nature of these activities during the Period. In the first half of 2012, $1,212,907 was invested in exploration, evaluation and development activities (2011: $3,694,169). This investment was principally in the completion of the second well in the Turner Bayou project including installation of a lift system.

Production

For the half year ended 30 June 2012, cumulative net production for the Company comprises 13,317 barrels of oil and 24,609Mcf of natural gas from the Turner Bayou, LaSalle Parish, Raven, Four Rivers projects (2011: 20,330 barrels of oil and 29,788Mcf of natural gas respectively). For the prior half year, production included amounts from Catahoula Lake. This production was sold effective 1 January 2012 and accordingly, no production from this project is included in the half year ended 30 June 2012.

Financial Results

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

Revenue of the Consolidated Entity from production of oil and gas for the half year ended 30 June 2012 was $1,477,327 (2011: $2,264,865). This decrease is predominantly the result of the sale of Catahoula Lake but also reflects natural decline in production for Turner Bayou, Lasalle, Four Rivers and Raven. The average oil price received for the 6 months to June 2012 was US$112 per Bbl (2011: US$102 per Bbl) with total revenue from oil sales attributable to the following producing assets: Turner Bayou 48%, Lasalle 26%, Raven 6%, Four Rivers 20%, The average gas price received for the 6 months to June 2011 was US$2.12 per Mcf (2011:US$3.88 per Mcf).

For the half year ended 30 June 2012, the Company has recorded a loss from operations of $2,439,673 (2011: $726,814). Total Comprehensive Income for the Company for the period was a loss of $2,420,107 (2011: $1,654,972) including a gain of $19,566 (2011: loss of $928,158) arising on translation of foreign operations. As a result of the sale of the Catahoula Lake project, the Company recorded a gain on sale of $202,637. Included in the loss is an amount of $671,351 which relates to the decision to write off all costs related to the Rabalais well in the Turner Bayou project. For the half year ended 30 June 2012, the Company has recorded negative cash flows from operations of $80,768 (2011: positive $443,079). The negative movement in operating cashflow compared to prior year reflects the sale of the Catahoula Lake project effective 1 January 2012.

Exploration Activities

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

Events Subsequent to Reporting Date

As announced to the ASX on 22 August 2012, Pryme Energy Limited (Pryme), via its wholly-owned subsidiary Pryme Oil and Gas, LLC executed a Conditional Commitment Letter for a US$100,000,000 Term Loan Facility (Term Facility) with Macquarie Bank Limited (Macquarie Bank) to fund its share of exploration and development costs for the Turner Bayou project in Louisiana, USA. A $5 million Bridge Loan Facility has also been provided by Macquarie Bank pending finalisation of the definitive credit agreement and other loan documents in relation to the Term Facility.

Both the Term Facility and Bridge Loan Facility (together the Facilities) are secured against the assets of Pryme Oil and Gas LLC only, Pryme's wholly-owned subsidiary which holds Pryme's interest in the Turner Bayou project. The Facilities are non-recourse to the parent company, Pryme Energy Limited, and all other projects and subsidiaries of Pryme. The obligations under the Bridge Loan Facility will

Directors' Report (cont.)

be assumed by the Term Facility once it is in place. Closing of the Term Facility is planned for 1 October 2012 and it has a 48 months term. The key terms and conditions of the Facilities are outlined below.

The key terms of the Bridge Loan Facility (Borrower – Pryme Oil and Gas LLC):

- An amount of US$5,000,000 in unconditionally committed funds to be used toward: (a) the drilling of one new well in the Turner Bayou Chalk project, (b) working capital, and (c) other costs associated with the closing of this transaction.
- Interest payable on the Bridge Loan Facility is LIBOR + 6.00% per annum payable monthly in arrears.
- Maturity of the Bridge Loan Facility is twelve (12) months from closing if Macquarie Bank does not offer to enter into the Term Facility on or before 1 October 2012. The Bridge Loan Facility will be repaid by and replaced by the Term Facility (see below) upon Macquarie Bank and Pryme closing the Term Facility.
- Pryme will assign to Macquarie Bank a Net Profits Interest (NPI) equal to 25% of Pryme's Working Interest in Turner Bayou. The NPI will be burdened by proportionate production and capital costs and commences on the earlier of Maturity of the Term Facility (48 months) or loan repayment.
- If Macquarie Bank does not offer to enter into the Term Facility the NPI will be restored to Pryme and, on maturity, the Bridge Loan Facility will be repaid with an amount to provide a 15% internal rate of return to Macquarie Bank.
- Customary affirmative and negative covenants as well as representations and warranties.

The key terms of the Term Facility (Borrower – Pryme Oil and Gas LLC):

- An amount of US$100,000,000 in uncommitted funds into two tranches. Tranche A of US$15,000,000 in unconditionally committed funds at closing will be used toward: (a) repayment of the Bridge Loan Facility, (b) drilling two new wells in the Turner Bayou Chalk project, and (c) other costs associated with the closing of the transaction. Tranche B of US$85,000,000 is uncommitted and will be used to fund the further expenditure to develop Pryme's share of the Turner Bayou project.
- Interest payable on the Term Facility is LIBOR + 6.00% per annum payable monthly in arrears.
- Maturity on the Term Facility is forty-eight (48) months from closing.
- The NPI assigned to Macquarie Bank under the Bridge Loan Facility (see above) will remain in place after repayment of the Bridge Loan Facility. The NPI will be burdened by proportionate production and capital costs and will commence on the earlier of the Maturity of the Term Facility (48 months) or loan repayment.
- Customary affirmative and negative covenants as well as representations and warranties.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration has been provided by Pryme's auditor, PricewaterhouseCoopers. A copy of this declaration is attached to, and forms part of, the half year report for the six months ended 30 June 2012.

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

Justin Pettett
Managing Director
Brisbane
29 August 2012

Production

Half Year Sales Report (net to Pryme)

Project	H1 2011		H2 2011		H1 2012	
	Natural Gas (Mcf)	Oil/ Condensate (Bbls)	Natural Gas (Mcf)	Oil/ Condensate (Bbls)	Natural Gas (Mcf)	Oil/ Condensate (Bbls)
Raven	28,749	623	28,996	482	24,609	531
Four Rivers (includes Lasalle)		7,940		6,970		6,644
Turner Bayou		9,114		5,960		6,142
Total	**28,749**	**17,677**	**28,996**	**13,412**	**24,609**	**13,317**
Total (BOE*)	**22,468**		**18, 244**		**17,418**	

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

Average net daily sales to Pryme's account for the half year ending June 2012 were 74 Bbls/day of oil and 136 Mcfd of natural gas (96 BOE/day combined). This represents a decrease of 4.5% in BOE from the half year ending December 2011 and is mainly attributable to the sale of Catahoula Lake production and normal decline across most producing assets.

Projects

Turner Bayou Chalk Project (40% WI – 30% NRI)

Financing Arrangements

A Conditional Commitment Letter for a US$100,000,000 Term Loan Facility (Term Facility) with Macquarie Bank Limited (Macquarie Bank) has been signed to fund Pryme's share of exploration and development costs for the Turner Bayou project. A $5 million Bridge Loan Facility has also been provided by Macquarie Bank pending finalisation of the definitive credit agreement and other loan documents in relation to the Term Facility. The Bridge Loan Facility will allow Pryme to fund its share of the next Turner Bayou Austin Chalk well, the Rosewood Plantation 21H.

Both the Bridge Loan Facility and Term Facility have been entered into by Pryme's wholly-owned subsidiary Pryme Oil and Gas LLC and are non-recourse to the parent company, Pryme Energy Limited, and all other projects and subsidiaries of Pryme. Pryme Oil and Gas LLC is the vehicle which owns Pryme's interest in the Turner Bayou project. The obligations under the Bridge Loan Facility will be assumed by the Term Facility once it is in place. Closing of the Term Facility is planned for 1 October 2012 and it has a 48 months term.

"Now that we have our funding secured, unlocking the significant value of the Turner Bayou project can be accomplished by drilling the next few wells in the project, implementing a low risk completion technique and bringing the wells online without incident. We have established the production potential of wells drilled in the Austin Chalk formation within the Turner Bayou project and we now intend to continue drilling and building a portfolio of producing oil wells," said Justin Pettett, Pryme's Managing Director. "This is a very tough market for junior explorers and a reliable source of funding is one of the key factors determining those who will survive and those who will not. Pryme is now funded for its share of Turner Bayou project expenditure. The provision of the facility will allow Pryme to focus on progressing the project."

Drilling Operations Underway on Next Well

The next Turner Bayou project well to be drilled is the Rosewood Plantation 21H. Permitting of both the Rosewood Plantation 21H and a second well, the Deshotels 24H, have been completed and site preparation for the Rosewood Plantation 21H is now underway. Drilling is planned to commence in the next 3-4 weeks subject to rig availability. The wells are located near the initial Turner Bayou wells, the Deshotels 13H and 20H, which were drilled by Pryme and its partners. This area is covered by the recently re-interpreted 3D seismic survey which indicates that it has the highest fracture intensity, and hence oil prospectivity, in the Austin Chalk formation within the project area.

Well completion techniques have been thoroughly evaluated over the past 6 months and the proposed technique to be applied to the next well is expected to reduce the likelihood of mechanical problems such as those which prevented the Deshotels 13H and 20H wells from producing to their full potential.

Projects (cont.)

"We are confident of eliminating mechanical issues similar to those experienced with the Deshotels 13H and 20H wells because we will not be completing the wells in the same way," said Ryan Messer, Pryme's Executive Director and Chief Operating Officer. "We will be completing the well with a more traditional approach which includes running a slotted or perforated liner in the horizontal section of the well. In this way we will avoid damaging the formation by pumping cement into open fractures or creating problems due to packer failures such as we had on the previous two completions. The changes made in engineering and the application of technology to keep the lateral in zone should greatly increase the recoveries of the wells while reducing mechanical risk."

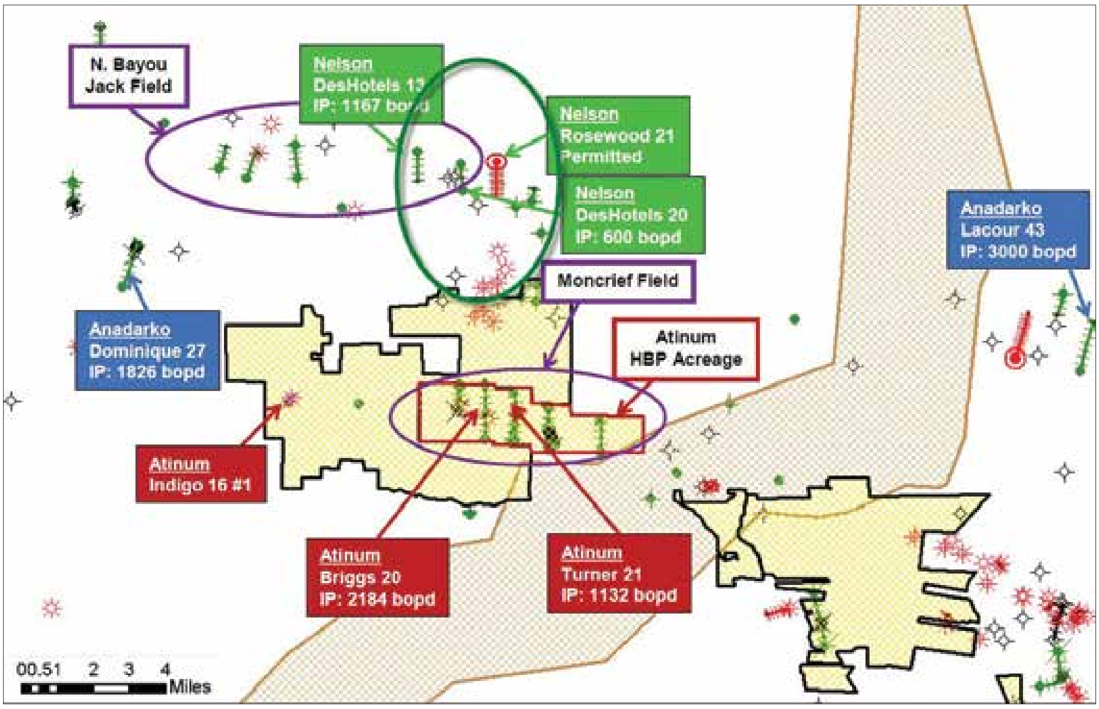
Deshotels 20H and 13H Production (40% WI / 30% NRI)
The average daily production rate for these wells during the half year ending June 2012 was 113 Bbls/day (34 Bbls/day net to Pryme.)

Production from both Deshotels 20H and 13H wells has remained fairly stable despite the mechanical issues which impeded their effective completion. The production units containing both the Deshotels 20H and 13H wells (approximately 2,160 acres) are held by production.

About the Turner Bayou Chalk Project
Pryme has a 40% working interest in 25,791 acres (10,316 net acres) in the Turner Bayou Project and is initially targeting development of the Austin Chalk horizon. Up to 30 gross Austin Chalk well locations are possible within the project area based on a 640 acre well spacing.

In addition to the Austin Chalk potential of the Turner Bayou project area, exploration drilling within Pryme's Turner Bayou leases has intersected the Tuscaloosa Marine Shale which is equivalent to the prolific Eagle Ford Shale in South Texas. Several exploration and production companies operating in proximity to Turner Bayou have achieved encouraging results from tests of this formation. The Company will continue to monitor this activity and update the market as appropriate.

Wells to test the Austin Chalk formation within Turner Bayou are located using Pryme's proprietary 3D seismic data, drilled to approximately 15,000 feet vertical depth and then horizontally for a further 4,000 to 6,000 feet targeting major phase oil. Naturally occurring fracture systems within the chalk act as the reservoir and typically do not require stimulation. Pryme has drilled two Austin Chalk wells within Turner Bayou (Pryme 40% WI). The second well, the Deshotels 13H, returned an initial potential rate of 1,167bpd of oil and 600Mcf/d of natural gas despite a sub optimal completion method and resulting mechanical issues.



The above map shows recent activity in the Austin Chalk directly surrounding Pryme's acreage in Avoyelles Parish Louisiana. Pryme's acreage is centred in and around the green oval and wells drilled to date (Deshotels 20H and 13H) are shown in green. The Rosewood Plantation 21 H well is also shown.

Projects (cont.)

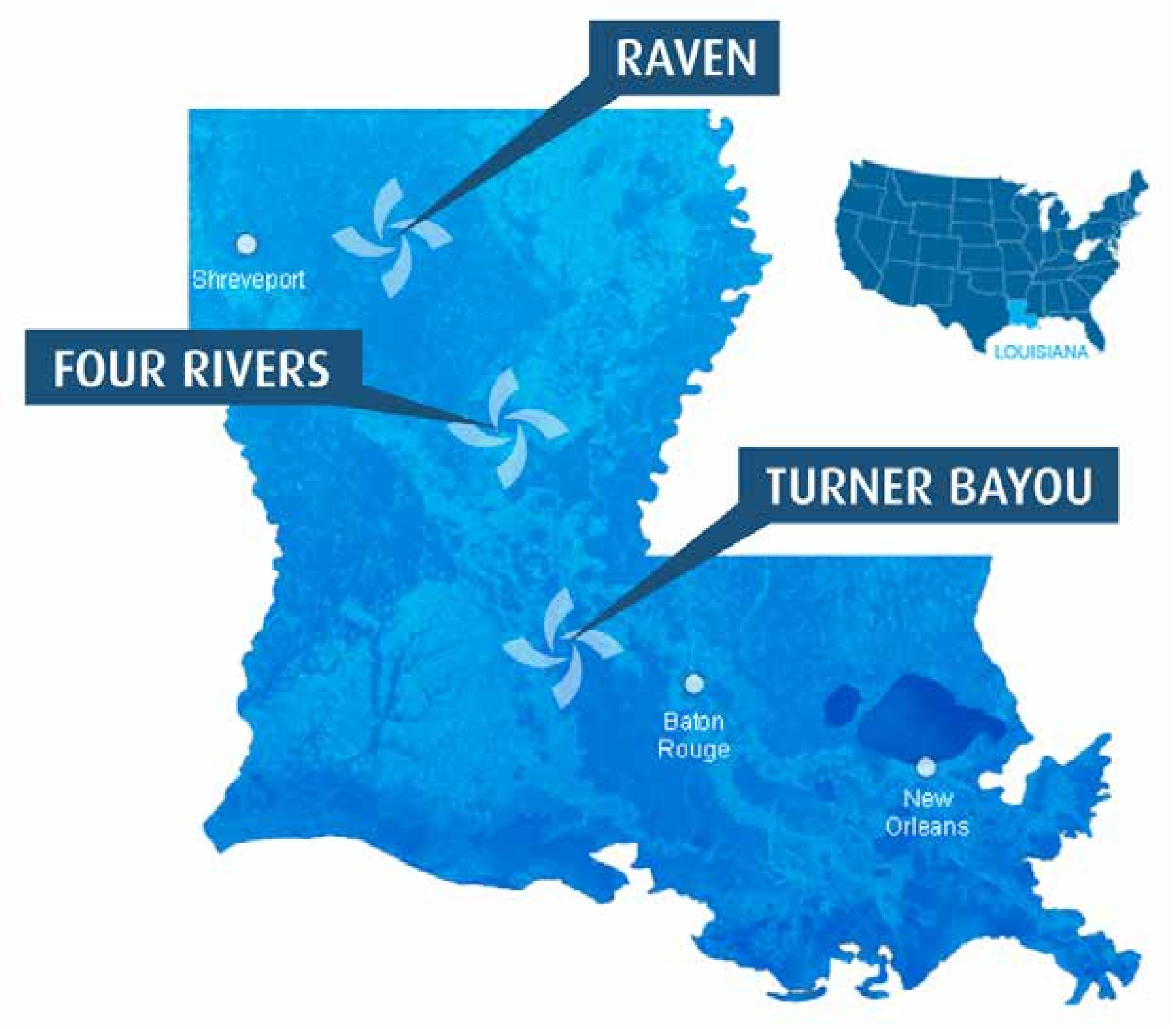
Four Rivers Project (25% – 8% WI)

Half year ending June 2012 sales from the Four Rivers project were 6,644 barrels of oil net to Pryme, which was slightly higher than for the half year ended December 2011 primarily due to recent recompletions in behind pipe reserves on several wells. Average sales net to Pryme were 37 Bbls/day for the half year.

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

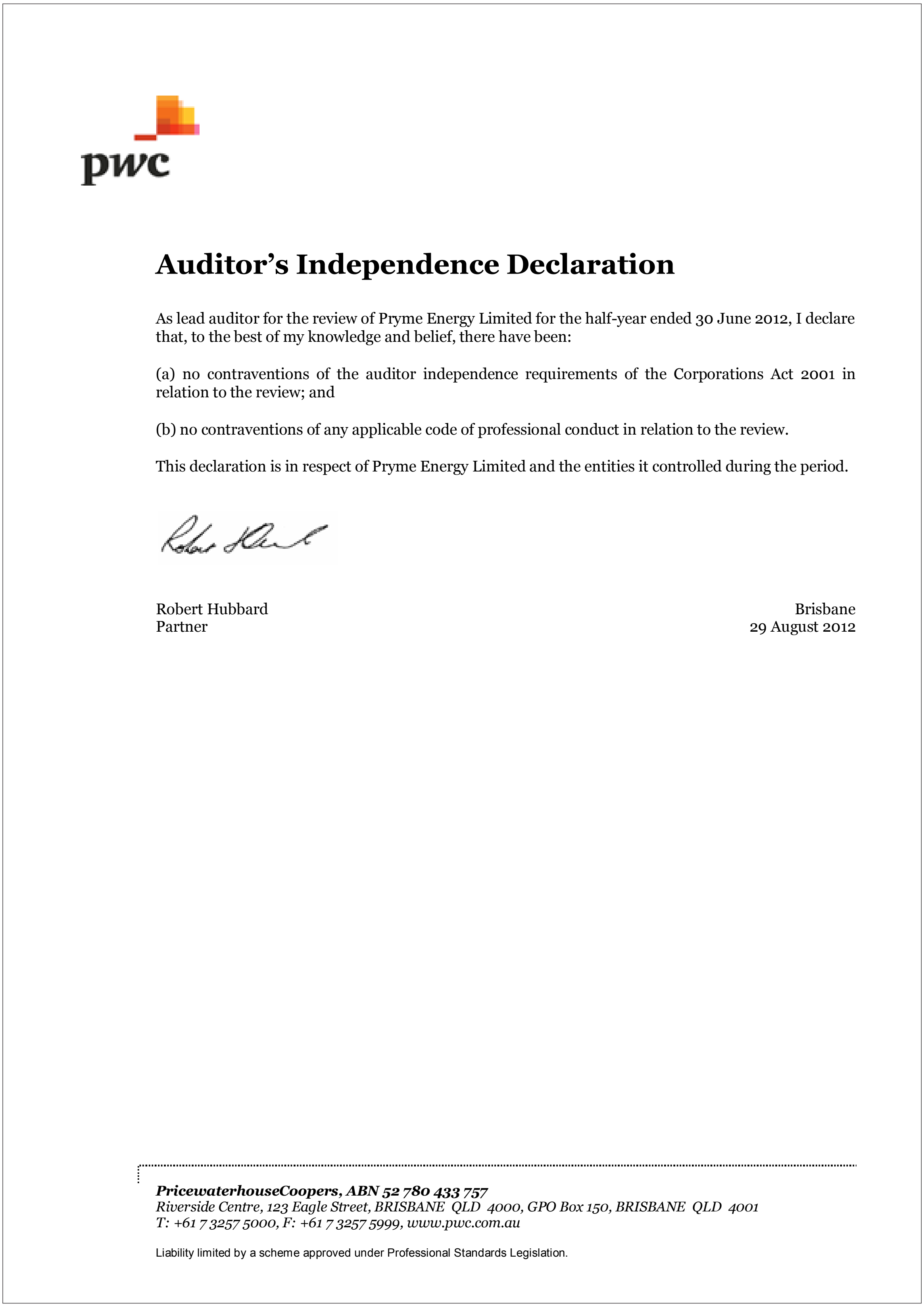
Raven Project (35% WI / 25.38% NRI)

Half year ending June 2012 sales for the Raven project were 24,609 Mcf of natural gas and 531 barrels of condensate net to Pryme, a 15% decrease in gas sales over the half year ended December 2011 due to normal decline and a 10% increase in condensate sales due to the timing of oil deliveries.



Auditor’s Independence Declaration

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



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Auditor’s Independence Declaration

As lead auditor for the review of Pryme Energy Limited for the half-year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

Robert Hubbard
Partner

Brisbane
29 August 2012

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Financials

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2012

		Consolidated Entity	
	Note	30 June 2012	30 June 2011
		$	$
Revenue	2	1,524,094	2,396,235
Production Costs		(622,898)	(674,428)
Gross Profit		901,196	1,721,807
Audit and accounting fees		(75,991)	(74,018)
Depletion, depreciation and exploration write off expense		(2,258,563)	(866,965)
Directors' remuneration	3	(298,698)	(271,288)
Directors' remuneration – Share/Option Plan	3	(5,484)	(40,865)
Professional consulting fees	3	(276,343)	(141,827)
Employee benefits expense		(213,478)	(245,016)
Legal and secretarial fees		(44,568)	(133,227)
Share registry and listing fees		(21,004)	(35,225)
Travel expenses		(66,352)	(139,111)
Gain on sale of assets		202,637	-
Finance costs		(102,525)	(157,917)
Administration expenses		(180,500)	(241,416)
Share of net loss of associate		-	(101,746)
Loss before income tax		**(2,439,673)**	**(726,814)**
Income tax expense		**-**	**-**
Loss for the period		**(2,439,673)**	**(726,814)**
Other Comprehensive Income			
Net gain /(loss) on foreign currency translation reserve		19,566	(928,158)
Income tax related to components of other comprehensive income/(loss)		-	-
Total Comprehensive Income/(Loss)		**(2,420,107)**	**(1,654,972)**
Net Profit/(Loss) attributable to members of the parent entity		**(2,439,673)**	**(726,814)**
Total Comprehensive Income/(Loss) attributable to members of the parent entity		**(2,420,107)**	**(1,654,972)**
Basic earnings per share from continuing operations – cents per share		(0.93) cents	(0.32) cents
Diluted earnings per share from continuing operations – cents per share		(0.93) cents	(0.32) cents

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE HALF YEAR ENDED 30 JUNE 2012

		Consolidated Entity	
	Note	30 June 2012	31 December 2011
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,059,975	5,232,537
Trade and other receivables	5	374,490	612,953
Other current assets		62,467	56,968
TOTAL CURRENT ASSETS		**1,496,932**	**5,902,458**
NON-CURRENT ASSETS			
Investment accounted for using the equity method	6	-	-
Property, plant and equipment		56,018	614,504
Working Interest	7	22,172,521	24,153,470
TOTAL NON-CURRENT ASSETS		**22,228,539**	**24,767,974**
TOTAL ASSETS		**23,725,471**	**30,670,432**
CURRENT LIABILITIES			
Trade and other payables		1,283,310	1,464,075
Borrowings	8	-	4,345,705
TOTAL CURRENT LIABILITIES		**1,283,310**	**5,809,780**
NON-CURRENT LIABILITIES			
Provisions		133,366	137,552
TOTAL NON-CURRENT LIABILITIES		**133,366**	**137,552**
TOTAL LIABILITIES		**1,416,676**	**5,947,332**
NET ASSETS		**22,308,795**	**24,723,100**
EQUITY			
Issued capital	9	43,882,648	43,817,369
Reserves		(5,385,477)	(5,332,066)
Accumulated losses		(16,188,376)	(13,762,203)
TOTAL EQUITY		**22,308,795**	**24,723,100**

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2012

	Note	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Total
		$	$	$	$	$
Balance at 1 January 2011		**39,918,989**	**(11,103,112)**	**(5,521,083)**	**79,432**	**23,374,226**
Total Comprehensive Loss for the half year		**-**	**(1,654,972)**	**-**	**-**	**(1,654,972)**
Transactions with owners in the capacity as owners						
Share issue costs		(20,376)	-	-	-	(20,376)
Long Term Incentive Plan		32,652	-	-	15,144	47,796
Adjustments from translation of foreign controlled entities		-	928,158	(928,158)	-	-
Balance at 30 June 2011		**39,931,265**	**(11,829,926)**	**(6,449,241)**	**94,576**	**21,746,674**
Balance at 1 January 2012		**43,817,369**	**(13,762,203)**	**(5,431,836)**	**99,770**	**24,723,100**
Total Comprehensive Loss for the half year		**-**	**(2,420,107)**	**-**	**-**	**(2,420,107)**
Share issue costs		(200)	-	-	-	(200)
Long Term Incentive Plan		65,479	-	-	(59,477)	6,002
Adjustments from translation of foreign controlled entities		-	(19,566)	19,566	-	-
Transfer from retained earnings		-	13,500	-	(13,500)	-
Balance at 30 June 2012		**43,882,648**	**(16,188,376)**	**(5,412,270)**	**26,793**	**22,308,795**

The accompanying notes form part of these financial statements

Financials (cont.)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2012

	Consolidated Entity	
	30 June 2012	30 June 2011
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,505,415	1,867,923
Payments to suppliers and employees	(1,631,409)	(1,460,031)
Interest received	45,226	35,187
Net cash (used in)/provided by operating activities	**(80,768)**	**443,079**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(58,812)	(27,317)
Payments for working interest	(1,212,907)	(3,694,169)
Proceeds from sale of working interest	1,627,077	-
Net cash provided by/(used in) investing activities	**355,358**	**(3,721,486)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of share issue costs	(200)	(20,376)
Payment of interest and finance fees	(448,230)	-
(Repayment of)/Proceeds from convertible notes	(4,000,000)	4,000,000
Net cash (used in)/provided by financing activities	**(4,448,430)**	**3,979,624**
Net (decrease)/increase in cash held	(4,173,840)	701,217
Cash at beginning of period	5,232,537	2,562,063
Effect of exchange rate movement	1,278	(20,715)
Cash at end of period	**1,059,975**	**3,242,565**

The accompanying notes form part of these financial statements

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION

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

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2011 and any public announcements made by Pryme Energy Limited ("Pryme" of "the Company") and its controlled entities ("Consolidated Entity") during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those in the annual financial report for the year ended 31 December 2011.

As at 30 June 2012, the Consolidated Entity has net current assets of $213,622. Consistent with other oil and gas exploration companies, Pryme raises capital to fund its exploration activities as required. Accordingly, the financial report has been prepared on a going concern basis in the belief that the Company will realise its assets and settle its liabilities in the normal course of business and for at least the amounts stated in the financial report.

On 22 August 2012, a wholly-owned subsidiary of Pryme Energy Limited, Pryme Oil and Gas, LLC executed a Conditional Commitment Letter for a US$100,000,000 Term Loan Facility (Term Facility) with Macquarie Bank Limited (Macquarie Bank) to fund its share of exploration and development costs for the Turner Bayou project in Louisiana, USA. A $5 million Bridge Loan Facility has also been provided by Macquarie Bank pending finalisation of the definitive credit agreement and other loan documents in relation to the Term Facility. The Bridge Loan Facility will allow Pryme to fund its share of the next Turner Bayou Austin Chalk well.

Repayment of funds advanced under the Bridge Loan Facility and the Term Facility is dependent on the sale of oil and gas from new wells drilled using funding under the facilities. Where the sale of oil and gas production from new wells do not generate sufficient cash to meet interest and loan repayment obligations, the ability of the company to continue as a going concern and meet its debts and commitments as they fall due is dependent upon the Company securing sufficient capital which may be in the form of (or some combination of) the following:

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

Where in an event of default, the lender exercises its rights arising under the Term Facility, including taking possession of the collateral pledged by Pryme Oil and Gas LLC, the directors believe the Company will be successful in securing sufficient capital via the above alternatives (or some combination of) and accordingly, have prepared the report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 30 June 2012. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below.

AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Pryme is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (continued)

and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in *AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting year ending 1 January 2013.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 January 2013.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (continued)

duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 January 2014 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

AASB 2012-3 Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities and AASB 2012-2 Disclosures – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The group intends to apply the new rules for the first time in the financial year commencing 1 January 2014.

AASB 2012-5 Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013)

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

NOTE 2: REVENUE FROM ORDINARY ACTIVITIES

	Consolidated Entity	
The following revenue items are relevant in explaining the financial performance for the interim period:	30 June 2012 $	30 June 2011 $
Oil and Gas revenue	1,477,327	2,264,865
Other income – interest	45,226	36,561
Other income – operator fees	1,541	94,809
	1,524,094	2,396,235

NOTE 3: DIRECTORS' REMUNERATION

Total Directors' remuneration of $438,293 (2011: $434,036) comprises:

- $298,698 (2011: $271,288) which was paid in cash or cash equivalents as salary to directors;
- $134,111 (2011: $121,883) which was paid in cash or cash equivalents for consulting services to entities of which Directors hold beneficial entitlements; and
- $5,484 (2011: $40,865) which is attributable to the expensing of Performance Rights and Restricted Stock Units granted pursuant to the Pryme Energy Long Term Incentive Plan. In accordance with Australian Accounting Standard AASB2 – Share-Based Payment (AASB2) the securities will be expensed over the performance period of the security, from the date of the grant and despite the fact that attaching transparent performance hurdles are yet to be achieved.

NOTE 4: DIVIDENDS

There were no ordinary dividends declared or paid during the period under review (2011: $Nil).

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

	Consolidated Entity	
	30 June 2012	31 December 2011
	$	$

NOTE 5: RECEIVABLES

CURRENT		
Trade receivables	236,222	587,041
Provision for Doubtful Debts	-	(104,937)
Other	138,268	130,849
	374,490	**612,953**

NOTE 6: INVESTMENTS ACCOUNTED USING EQUITY METHOD

Opening balance at 1 January 2012 (2011: 1 Jan 2011)	-	5,075,331
Transfer to working interest	-	(5,069,843)
Foreign exchange fluctuations	-	(5,488)
Closing balance at 30 June 2012 (2011: 31 December 2011)	-	-

NOTE 7: WORKING INTEREST

Exploration expenditure capitalised		
Exploration and evaluation phases	7,886,436	6,941,381
Less exploration costs written off	(660,198)	-
Production phase	22,979,431	24,024,063
Less accumulated depletion	(8,033,148)	(6,811,974)
	22,172,521	24,153,470

NOTE 8: BORROWINGS

Convertible Notes	-	4,345,705
	-	4,345,705

As announced to the ASX on 14 March 2011 and ratified by shareholders at the Annual General Meeting on the 18th April 2011, the Company completed a funding agreement with its major shareholder, Belmont Park Investments Pty Ltd (BPI), to raise $4.0 million through an unsecured convertible note facility. The terms of the facility provide for repayment on the date falling 12 months after initial drawdown with interest payable at a rate of 9.381% per annum and a facility fee equal to 2.5% of the principal. The principal, interest and facility fee is convertible into ordinary shares of the Company at BPI's election at any time from initial drawdown to maturity at a price of $0.30 per share in the Company. On 10 April 2012, the Company repaid the borrowings in full including applicable interest and fees.

NOTE 9: ISSUED CAPITAL

Fully paid ordinary shares	46,236,761	46,171,282
Capital raising costs	(2,354,113)	(2,353,913)
	43,882,648	43,817,369
Number of ordinary shares on issue at the end of the period:	259,360,278	257,841,350

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

NOTE 10: CONTINGENT LIABILITIES & COMMITMENTS

There has been no change in contingent liabilities since the last annual reporting date 31 December 2011.

NOTE 11: SEGMENT REPORTING

Operating Segments — Geographical Segments

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

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

	Australia	United States of America	Eliminations	Total
2012	**$**	**$**	**$**	**$**
Income				
Oil and Gas Revenue	-	1,477,327	-	1,477,327
Intercompany Management Fee	1,035,640	-	(1,035,640)	-
Other	45,226	1,541	-	46,767
Expenditure				
Production Expenses	-	(622,898)	-	(622,898)
Depletion, depreciation and exploration expenditure written off	(3,689)	(2,254,874)	-	(2,258,563)
Employee Related Expenses	(200,028)	(86,328)	-	(286,356)
Intercompany Management Fee	-	(1,035,640)	1,035,640	-
Other	(638,595)	(107,449)	(49,906)	(795,950)
Segment result	**238,554**	**(2,628,321)**	**(49,906)**	**(2,439,673)**
Assets	43,272,871	23,576,043	(43,123,443)	23,725,471
Liabilities	(206,998)	(44,333,023)	43,123,345	(1,416,676)
2011				
Income				
Oil and Gas Revenue	-	2,264,865	-	2,264,865
Intercompany Management Fee	784,798	-	(784,798)	-
Other	36,556	94,814	-	131,370
Expenditure				
Production Expenses	-	(674,428)	-	(674,428)
Depletion, depreciation and exploration expenditure written off	(2,678)	(966,033)	-	(968,711)
Employee Related Expenses	(210,814)	(75,067)	-	(285,881)
Intercompany Management Fee	-	(784,798)	784,798	-
Other	(738,972)	(455,057)	-	(1,194,029)
Segment result	**(131,110)**	**(595,704)**	**-**	**(726,814)**
Assets (30 June 2011)	43,331,551	23,546,724	(40,461,533)	26,416,742
Liabilities (30 June 2011)	(4,302,264)	(40,829,241)	40,461,437	(4,670,068)

Financials (cont.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

NOTE 12: EVENTS SUBSEQUENT TO REPORTING DATE

As announced to the ASX on 22 August 2012, Pryme Energy Limited (Pryme), via its wholly-owned subsidiary Pryme Oil and Gas, LLC executed a Conditional Commitment Letter for a US$100,000,000 Term Loan Facility (Term Facility) with Macquarie Bank Limited (Macquarie Bank) to fund its share of exploration and development costs for the Turner Bayou project in Louisiana, USA. A $5 million Bridge Loan Facility has also been provided by Macquarie Bank pending finalisation of the definitive credit agreement and other loan documents in relation to the Term Facility.

Both the Term Facility and Bridge Loan Facility (together the Facilities) are secured against the assets of Pryme Oil and Gas LLC only, Pryme's wholly-owned subsidiary which holds Pryme's interest in the Turner Bayou project. The Facilities are non-recourse to the parent company, Pryme Energy Limited, and all other projects and subsidiaries of Pryme. The obligations under the Bridge Loan Facility will be assumed by the Term Facility once it is in place. Closing of the Term Facility is planned for 1 October 2012 and it has a 48 months term. The key terms and conditions of the Facilities are outlined below.

The key terms of the Bridge Loan Facility (Borrower – Pryme Oil and Gas LLC):

- An amount of US$5,000,000 in unconditionally committed funds to be used toward: (a) the drilling of one new well in the Turner Bayou Chalk project, (b) working capital, and (c) other costs associated with the closing of this transaction.
- Interest payable on the Bridge Loan Facility is LIBOR + 6.00% per annum payable monthly in arrears.
- Maturity of the Bridge Loan Facility is twelve (12) months from closing if Macquarie Bank does not offer to enter into the Term Facility on or before 1 October 2012. The Bridge Loan Facility will be repaid by and replaced by the Term Facility (see below) upon Macquarie Bank and Pryme closing the Term Facility.
- Pryme will assign to Macquarie Bank a Net Profits Interest (NPI) equal to 25% of Pryme's Working Interest in Turner Bayou. The NPI will be burdened by proportionate production and capital costs and commences on the earlier of Maturity of the Term Facility (48 months) or loan repayment.
- If Macquarie Bank does not offer to enter into the Term Facility the NPI will be restored to Pryme and, on maturity, the Bridge Loan Facility will be repaid with an amount to provide a 15% internal rate of return to Macquarie Bank.
- Customary affirmative and negative covenants as well as representations and warranties.

The key terms of the Term Facility (Borrower – Pryme Oil and Gas LLC):

- An amount of US$100,000,000 in uncommitted funds into two tranches. Tranche A of US$15,000,000 in unconditionally committed funds at closing will be used toward: (a) repayment of the Bridge Loan Facility, (b) drilling two new wells in the Turner Bayou Chalk project, and (c) other costs associated with the closing of the transaction. Tranche B of US$85,000,000 is uncommitted and will be used to fund the further expenditure to develop Pryme's share of the Turner Bayou project.
- Interest payable on the Term Facility is LIBOR + 6.00% per annum payable monthly in arrears.
- Maturity on the Term Facility is forty-eight (48) months from closing.
- The NPI assigned to Macquarie Bank under the Bridge Loan Facility (see above) will remain in place after repayment of the Bridge Loan Facility. The NPI will be burdened by proportionate production and capital costs and will commence on the earlier of the Maturity of the Term Facility (48 months) or loan repayment.
- Customary affirmative and negative covenants as well as representations and warranties.

Directors' Declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 9 to 18 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the half-year ended on that date, and

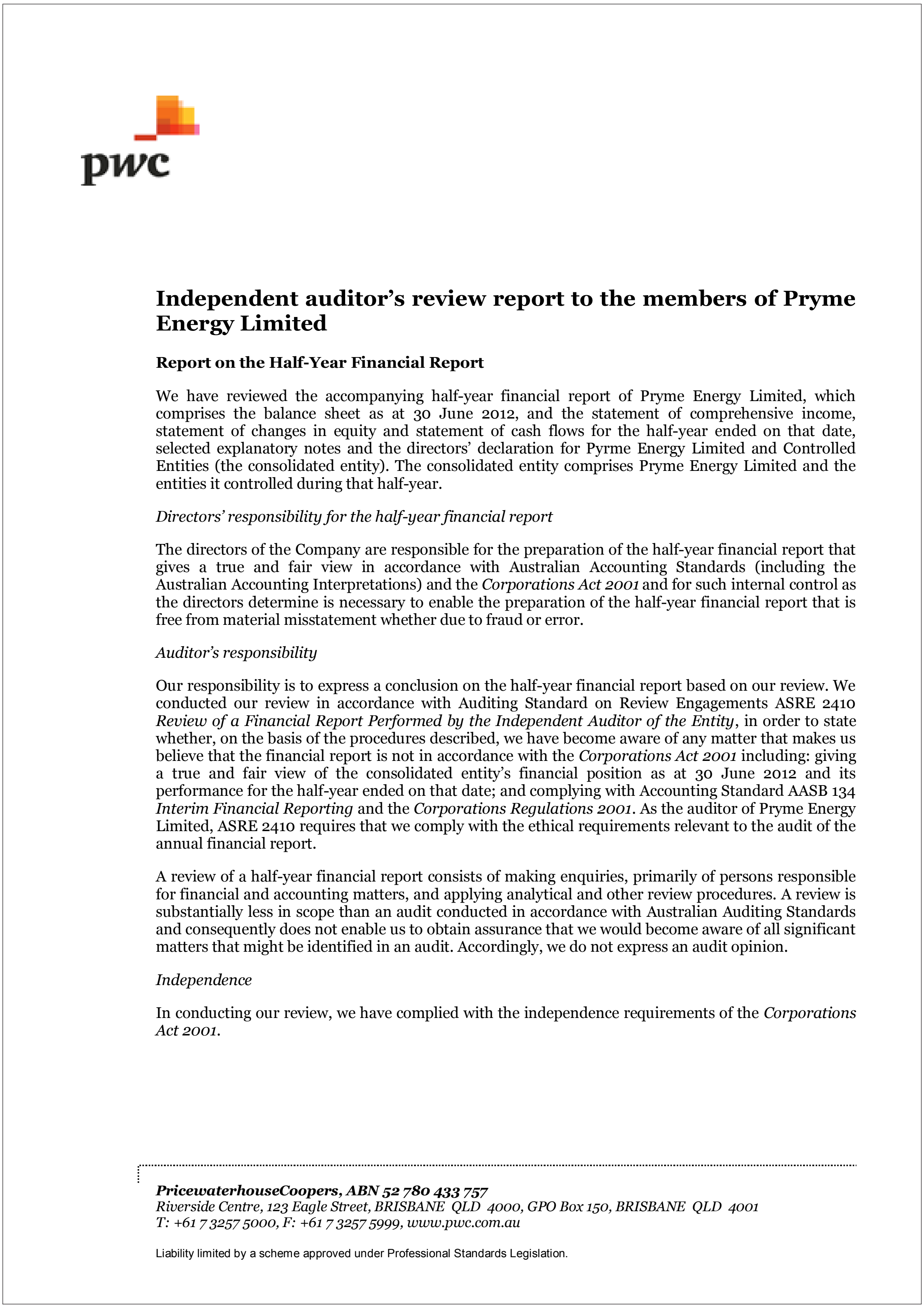
(b) there are reasonable grounds to believe that Pryme Energy Limited will be able to pay its debts as and when they become due and payable.

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

Justin Pettett
Managing Director

Brisbane
29 August 2012

Auditor's Review Report



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pryme Energy Limited, which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Pyrme Energy Limited and Controlled Entities (the consolidated entity). The consolidated entity comprises Pryme Energy Limited and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pryme Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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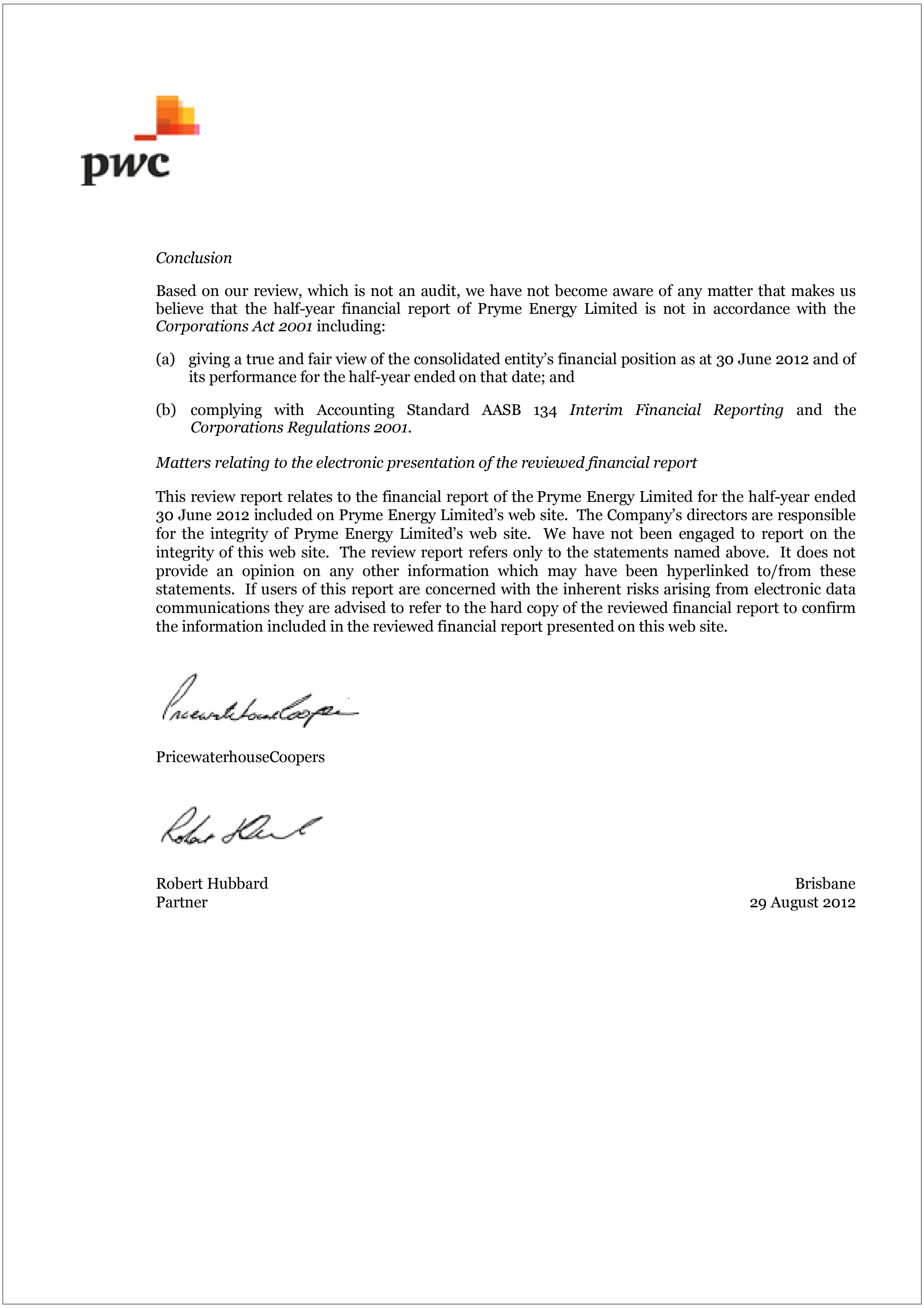
Auditor's Review Report (cont.)



pwc

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Pryme Energy Limited for the half-year ended 30 June 2012 included on Pryme Energy Limited's web site. The Company's directors are responsible for the integrity of Pryme Energy Limited's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Robert Hubbard	Brisbane
Partner	29 August 2012

Corporate Directory

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

Chief Financial Officer
Sandra Gaffney

Company Secretary
Ms Swapna Keskar

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