pryme
OIL AND GAS




2008 **ANNUAL REPORT**

Pryme's Mission

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

Broadly, the Pryme strategy is to:

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

Why the USA?

Profitability

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

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

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

Resources

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

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

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

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

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Glossary

Bbls	Barrels of oil
Bbls/day	Barrels (of oil) per day
Bbls/month	Barrels (of oil) per month
Bcf	Billion Cubic Feet
Btu	British thermal unit (BTU or Btu) is a unit of energy used in North America and is defined as the amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit
GJ	A Gigajoule is a unit of energy
Mcf	Thousand Cubic Feet
MMcf	Million Cubic Feet
MMcfd	Million Cubic Feet of Natural Gas per Day
MMBtu	Represents one million (1,000,000) Btu
NRI	Net Revenue Interest
NAPE	Formerly North American Prospect Expo
Ohms (Ohmmeters)	Measure of resistivity to electric current
psig	Pounds per square inch gauge
Tcf	Trillion Cubic Feet
3.28 feet	Equals 1 metre

Chairman's Report

Dear Shareholder,

The 2008 year has been a challenging one for Pryme as it has been for most small oil and gas explorers and producers. The collapse of global equity markets has also meant that the year was an extremely testing one for our shareholders. We are well prepared for a challenging 2009 and hope to see an increased level of activity, restoration of value to our share price and a strengthening of the platform we are building for growth in the value of your company.

During the first half of 2008, the US oil and gas exploration industry experienced rapidly increasing oil and gas prices accompanied by significantly increased exploration costs, fierce competition for exploration acreage and low rig availability. The second half of the year, with considerable economic uncertainty throughout the world, brought a rapid turnaround with plummeting oil and gas prices, reduced exploration activity, reduced exploration costs (although, for companies such as Pryme, these have been offset by a weaker Australian currency) and increased rig availability.

The high levels of exploration activity due to high oil and gas prices over the past few years have led to modest increases in oil and, more particularly, natural gas resources in the United States. As a result, natural gas production over the next few years is likely to be below capacity with an inventory overhang keeping prices relatively low in the short term. Given the uncertain global economic outlook, it is difficult to confidently make oil and gas price forecasts. However, reduced exploration activity in the short term and the commencement of an economic recovery are expected to lead to rapidly increasing demand and a resumption of the upward price trend in the medium to longer term.

At Pryme, we consider the weaker oil and gas prices as a temporary interruption to the increasing price trend for energy commodities and we intend to operate the business in a way which is mindful of the present risks and uncertainties but retains flexibility and options for significant growth.

Pryme did not achieve all of its goals for 2008. Our planned progress in developing the shallow gas plays in the Turner Bayou project was slowed by delays in the grant of permits by regulatory authorities (largely due to an overload in demands on government environmental services in the aftermath of hurricane Katrina) and low rig availability. Access to the Saline Point drill site was hampered by poor weather conditions, although we are more confident that we will be drilling at Saline Point in the first half of 2009. The turbulence in the equity capital markets resulted in our joint venture partner in the Atocha project being unable to fund the acquisition of its interest in the project; we remain confident that Atocha has the potential to create significant value for Pryme and will continue to investigate opportunities for its development.

On the positive side, we have significantly increased our production of gas and condensate from the Raven Project and expect revenue from Raven in 2009 to be more than half of total revenue for the year; we have gained a better understanding of the deeper potential of the Turner Bayou project with respect to oil as well as gas, and are evaluating several deep prospects for drilling in 2009. Two out of the three shallow wells which were drilled in the Turner Bayou project during 2008 have potential to be economic producers when there is sufficient latent production potential demonstrated in the region to justify the completion of the wells and the installation of a sales pipeline.

While natural gas sales are expected to make a significant contribution to revenue in 2009, in the medium to long term Pryme is planning to generate the bulk of revenue through oil. Success with the planned Saline Point well will add to oil sales for the year and success with deep Turner Bayou exploration will increase our oil production potential.

In 2009, we are focusing on conserving cash but not backing away from projects that will create value in the short to medium term. Given lower oil and gas prices, the criteria which must be satisfied before we commit capital to new projects or further development of existing projects are tougher than previously. Nevertheless we have a number of opportunities before us which we expect will add value even at the present low oil and gas prices. These are dealt with in the Managing Director's Report.

Phillip Judge and John Dickinson retired as directors during the year. I wish to publicly acknowledge the valuable contribution that they made to the Company from the time of its formation. John Dickinson continues to act for the Company in an advisory capacity.

During the year the executive directors relinquished options which had been granted to them as incentives at the time of listing the Company. This was done because the ongoing cost of expensing these options was proving to be a significant impost on the Company's financial performance with no benefit to shareholders. This year we are putting a revised form of incentive scheme to shareholders for approval. A recently reconstituted remuneration philosophy (which includes the proposed scheme) is designed to provide reasonable levels of long and short term incentives to key executives to encourage and reward performance that adds value to the Company for all shareholders. The proposed scheme is fully described in the notice of meeting and I encourage all shareholders to consider it carefully, to recognise the benefits that its implementation will bring to the company and to support it at our Annual General Meeting on 8 April 2009.

I wish to thank shareholders for their loyalty to the Company through a difficult year and to assure them of the Board's commitment to growing the Company for their benefit.

George Lloyd
Chairman

Managing Director's Report

Dear Shareholder,

I am pleased to present my third report to you since the listing of Pryme Oil and Gas on the Australian Securities Exchange in April 2006. The 2008 year has certainly been turbulent, not only for Pryme but also for many junior listed oil and gas companies. During the year we experienced the highest oil and gas prices of all times followed by possibly the most rapid price decline ever. The effects of the global financial crisis and the likelihood of a prolonged recession in the United States have encouraged us to review all activities and focus on those that are most likely to add value to the Company in the short to medium term whilst preserving our long term growth opportunities and retaining the flexibility to take advantage of new opportunities that may emerge.

During the year we focused on executing Pryme's current projects, securing additional prospective acreage, acquiring seismic data and planning for expansion. However, we did not meet all of our expectations with respect to a number of projects due to delays in permitting of drill sites, reduced availability of oil field supplies and services, and deteriorating capital markets. As we move into 2009 we are focused on growing the value of our existing portfolio of projects and identifying, evaluating and implementing new projects. We are keeping our mission – *To Build a World Class Independent Oil and Gas Company* – clearly in mind.

Since listing, Pryme has enjoyed regular income from the LaSalle Parish Project in LaSalle Parish, Louisiana. During the year this was supplemented with the proceeds of natural gas and condensate sales from the Raven Project in Northern Louisiana. We are in the fortunate position of having no debt, a modest cash balance and, most importantly, growing oil and gas production which can sustain the Company even at the current low commodity prices.

During 2008, Pryme continued to develop its portfolio of projects. This included further leasing and drilling in the Turner Bayou and Raven projects as well as expanding core lease holdings around our Atocha prospect in the Up Dip Tuscaloosa project. As previously communicated, Pryme's project generation strategy is to identify, evaluate and acquire opportunities which provide portfolio diversity in terms of geography, geology and risk. As a rule, Pryme will retain large working interests in projects involving the drilling of shallow targets. However, the greater expense and risk involved in testing deep targets are generally reduced by farming-out such projects and retaining involvement in the form of carried interests and overriding royalties.

In 2008, the Company expanded its leasehold position within Turner Bayou and drilled 3 additional shallow Frio targets to depths of 5,000 feet. Three out of the five Frio wells drilled to date have potential to be completed as gas producers. Drilling of the wells and correlation of well log data with the 3D seismic survey results have enabled further analysis of the Frio anomalies within the Turner Bayou area to be carried out. We now believe that there are fewer high quality, sizeable shallow targets than originally anticipated. Nevertheless, we still believe that the potential for further shallow discoveries within the project area warrants additional drilling and ultimately, when a sufficient number of discoveries have been made to justify the investment in a sales pipeline and related infrastructure, the production of gas. The continuing analysis of the 3D seismic data has also led to the interpretation of a greater than originally anticipated number of potential high impact anomalies at depths below 8,000 feet within the Wilcox and Austin Chalk intervals. During 2009, drilling of the shallow Frio anomalies will continue. We also plan to begin testing the deeper targets, subject to successfully farming out a portion of our interest in them to reduce the risk and cost to the Company. Success in exploration of the deeper anomalies has the potential to greatly increase the value to Pryme within the Turner Bayou Project.

Production from Raven grew significantly through 2008 with the addition of two new wells. High oil and gas prices for most of the year, coupled with the new production, made a significant contribution to revenue. We are carefully analyzing the next well to be drilled in this project; we expect drilling costs to decrease, in line with falling natural gas prices, which should contribute to favourable economics.

Plans to recomplete the second Saline Point well in 2008 were abandoned due to technical and site access difficulties. A third well location has been chosen and prepared. Drilling of the well is planned for the first half of 2009 although the site access is dependent on water levels in the adjoining lake. At the time of writing we are awaiting a Corps of Engineers permit prior to drilling. Production facilities are already in place to take advantage of any oil discovery in this prospect.

The high impact Atocha re-entry prospect in the Up Dip Tuscaloosa project has been fully leased with Pryme securing over 6,400 acres of mineral leases. During the year, Pryme entered into a farm out agreement with Promesa Limited whereby Promesa would bear the full cost of exploration and Pryme would retain a significant carried interest. Due to adverse market conditions, Promesa was unable to raise sufficient capital within the required timeframe and the agreement was terminated allowing Pryme to pursue other farm-out options. Considerable preparatory work for the re-entry of the Atocha well has been completed and it is intended that the re-entry will commence as

Managing Director's Report

soon as a farm-in partner is secured. Proposed farm out terms include a combination of cash to reimburse costs to date, a carried working interest and/or an overriding royalty interest. A successful recompletion of Atocha has the potential to significantly increase earnings and greatly increase the valuation of Pryme. The project area includes a number of drill targets in addition to Atocha.

A sizeable investment in seismic data, including reprocessing and interpretation, has been made at the Checkmate project covering an AMI of 5,650 square miles across several parishes in southeast Louisiana and two counties in the southwest corner of Mississippi. Under the Checkmate joint venture agreement with Amelia Resources, Pryme has the exclusive right, through to June 2010, to fund exploration of prospects generated by Amelia within the underexplored basin which comprises the area of mutual interest. Pryme is also able to benefit from Amelia's sixteen years of geological experience in the region with major companies such as Amoco. We will continue to review prospects offered by Amelia, choosing to pursue those which are ready to drill, have the best chance of commercial success and have a short lead time to production if a discovery is made. Regardless of whether or not Pryme takes up any prospects under the joint venture, a substantial library of seismic data has been accumulated for Pryme's benefit.

During the year we completed the sale of the Condor Project to BP and, in addition to recovering over 100% of our costs, retained an overriding royalty. Exploration success at Condor has the potential to make a significant contribution to Pryme's financial performance.

In response to the current global economic crisis, new area leasing activities in the Up Dip Tuscaloosa and Checkmate projects have been suspended and administrative and operating costs have been subjected to review in order to optimize cash outgoings.

Pryme has reported a loss of A$2.49 million for 2008, a 26% improvement over the loss of A$3.36 million for 2007. Revenue from oil and gas sales, at A$2.89 million, was 85% higher than in 2007 (A$1.56 million); this was due to a combination of higher oil and gas prices and a significant increase in gas sales with the commencement of production from the two new wells in the Raven project. Non cash expenses, amounting to A$2.99 million (A$2.63 million in 2007), had a major impact on financial performance and included depletion of operating assets, exploration costs written off and the expense associated with options under the Directors' Incentive Option Plan (DIOP).

On an operating cash flow basis, the Company ended the year with a modest surplus of A$0.69 million a significant improvement over 2007 which had an operating cash flow deficit of A$1.78million Cash at bank at the end of the year was A$2.96 million.

During 2009, we intend to continue to extract the value we have built into our existing projects and to take advantage of new opportunities which meet our acceptance criteria. We are targeting a mix of low to medium risk prospects with the explicit focus on building oil reserves and increasing production.

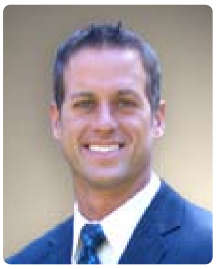
I would like to formally thank our Chief Operating Officer, Ryan Messer, and our technical and commercial advisers for their support throughout 2008. I would also like to welcome Sandra Gaffney who joined the Company as Group Financial Controller towards the end of last year and has already made a significant contribution.

In closing, I would like to thank all shareholders for their support throughout the year. The top 40 shareholders in Pryme remain, for the second year in a row, unchanged, something of which I am continually proud. Your Company is committed to operating with integrity and professionalism through these uncertain economic times and will work hard to recover from the effects of the market slump as rapidly as possible.

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

Justin Pettett
Managing Director

Chief Operating Officer's Report



Dear Shareholder,

During 2008, Pryme drilled four wells, one in the Raven project (Patterson 16-1) and three in the Turner Bayou project (Indigo Minerals 27 No.1, Indigo Minerals 29 No.1 and Trifolia 9 No.1). The rate of exploration progress in the Turner Bayou project was slower than intended, largely due to significant delays in securing permits from state and federal regulatory authorities. However, the drilling that was completed contributed to an improved understanding of the Turner Bayou seismic data and a re-prioritisation of drilling targets.

In the Raven project two wells, Grable 15-1 (drilled towards the end of 2007) and Patterson 16-1, were completed and commenced production of natural gas and condensate.

Of the three Turner Bayou wells one, Indigo Minerals 27 No.1, was plugged and abandoned and the other two were logged as potential producers. These wells will not be completed until sufficient latent production has been demonstrated in the vicinity to justify the construction of a sales pipeline; at this time it is also possible that the Trifolia 9 No.1 well will be re-drilled in a structurally higher location where it is expected that better production characteristics can be demonstrated.

Oil production at the LaSalle Parish project in 2008 was 14% lower than in 2007 due largely to normal decline and minor production interruptions. The three producing Raven wells contributed approximately 50% to 2008 production on a barrel of oil equivalent (BOE) basis. The Raven gas production also provided some portfolio balance between oil and natural gas sales.

The following is a summary of the status and initial gross production results of the wells drilled or completed by Pryme in 2008:

Project (well)	**Status**	**NRI**	**Initial Test Results (approximate per day)**	**Recent Daily Production (Dec 2008 Average)**
Raven (Grable 15-1)	Producing from "Price" and "C" Sands	30%	850 Mcf and 21 Bbls of condensate	629 Mcf and 17 Bbls of condensate
Raven (Patterson 16-1)	Producing	30%	950 Mcf and 13 Bbls of Condensate	540 Mcf and 7 Bbls of condensate
Turner Bayou (Indigo Minerals 29 No. 1)	Awaiting Completion	39%	Not tested	-
Turner Bayou (Trifolia 9 No. 1)	Awaiting Completion	39%	Not tested	-
Turner Bayou Indigo Minerals 27 No. 1	Plugged and abandoned	-	-	-

Leasing & Data Acquisition

Leasing continued through most of 2008 with the acquisition of several large lease blocks in the Turner Bayou project to secure its deeper prospects, the completion of leasing of three sections in the Raven Project, the completion of leasing in the area surrounding the Atocha prospect and minor lease acquisitions in two prospects on trend and offsetting Atocha.

Expenditure

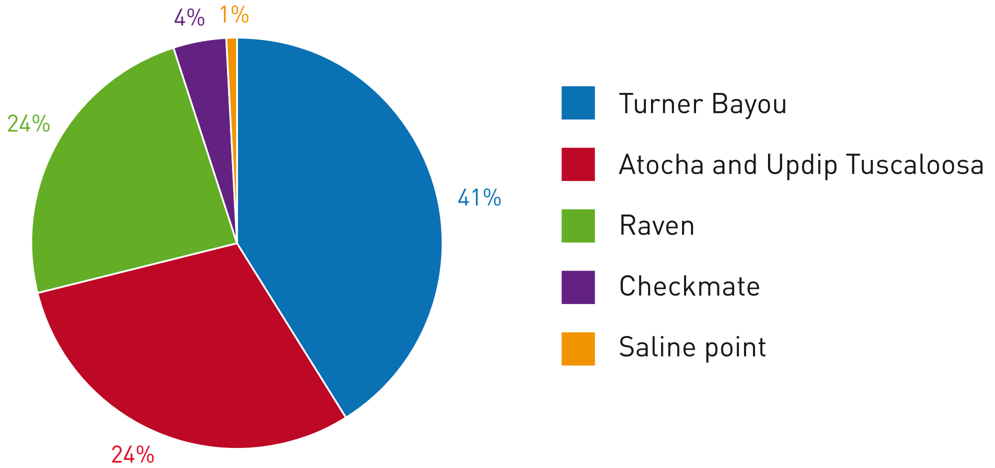
The table and corresponding pie chart on the following page show Pryme's total project investment for the year ending 31 December 2008. All projects are located in the state of Louisiana.

In 2008, capital expenditures for all investing activities were approximately US$3.95 million as shown in the following table, US$1.5 million of this was for drilling. This brings total expenditures to date in all projects to approximately US$18.5 million.

Chief Operating Officer's Report

Project	Total	Percentage	Description
Turner Bayou	US$1,639,000	41%	Proprietary 3D Seismic
Atocha and Updip Tuscaloosa	US$1,186,500	30%	Tuscaloosa Trend
Raven	US$938,000	24%	Cotton Valley Trend
Checkmate	US$163,000	4%	Underexplored Basin in Florida Parishes
Saline Point	US$28,000	1%	Intermediate Wilcox Oil
Grand Total	**US$3,954,500**	**100%**	

Total Project Expenditures on a per project basis for 2008 only



Total Project Expenditures on a per project basis in USD for 2008 only

The value of the Company's investments increased by A$8.75 million to A$26.32 million at the end of the year. This was funded in part with A$6.73 million from capital raisings in the early part of the year and cash from operations. In addition, the declining Australian dollar/US dollar exchange rate through the year has contributed A$4.7 million in increased valuation of the Company's United States assets.

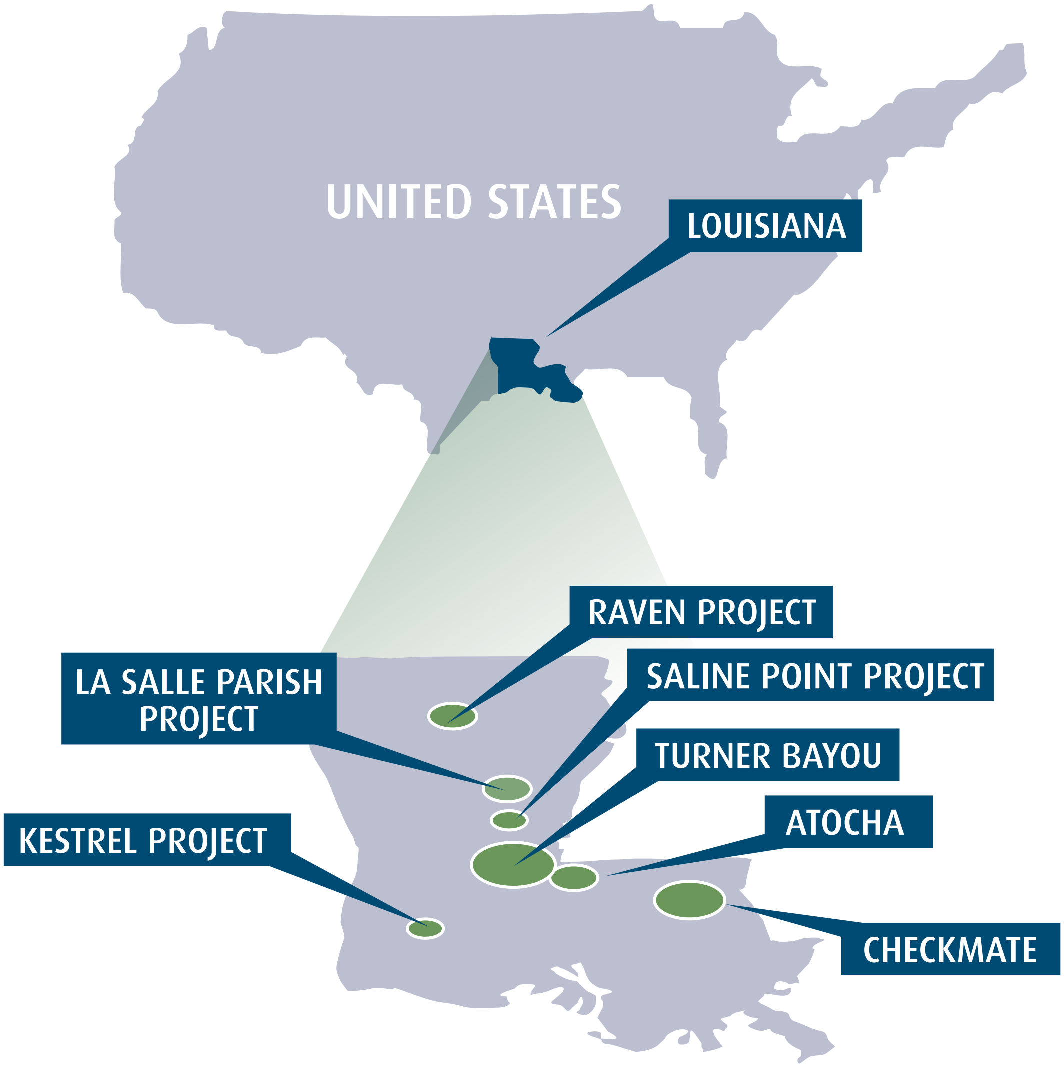
Outlook for 2009

Exploration expenditure for 2009 is planned to be slightly less than in 2008. However, the proportion of expenditure on exploring oil targets will be significantly higher than in the previous year. The expenditure will be allocated to continuing the development of existing projects as well as new projects which satisfy the Company's investment criteria.

We plan to test the Saline Point project in the first half of 2009 and to drill two or more shallow prospects in the Turner Bayou project area in locations which are relatively close to the existing natural gas sales line. The Company will continue to market its deeper high impact prospects in Turner Bayou and Atocha with the recovery of any free cash from the farm out of these projects governing the spending on further exploration activities through 2009. New projects under consideration for 2009 will be undertaken with a view to proving up oil reserves and commencing production within a relatively short time.

Ryan Messer
Chief Operating Officer

Projects



Annual Sales Report (net to Pryme)

Project	**Calendar Year 2008**		**Calendar Year 2007**	
	Natural Gas (Mcf)	Oil/Condensate (Bbls)	Natural Gas (Mcf)	Oil/Condensate (Bbls)
La Salle Parish	0	15,448	0	18,038
Raven	88,833	1,905	4,777	160
Total	**88,833**	**17,353**	**4,777**	**18,198**
Total BOE*	**32,158**		**18,994**	

** Barrels of Oil Equivalent (BOE) is calculated at a ratio of 6Mcf of natural gas per barrel of oil*

Projects

LaSalle Parish Project (8% - 21.5% Interest)

The LaSalle Parish project is based on oil production from five middle aged fields, the first of which was discovered in 2000, and remains an important contributor to the Company's cash flow.

Oil sales for the year attributable to Pryme's interest were 15,448 barrels (42 Bbls/day net to Pryme), a 14% reduction over the previous year which is generally attributable to natural decline. Realised oil prices throughout 2008 averaged US$100 per barrel.

Field Name	Total Interest	Oil Wells
Routh Point Field	13.00%	9
Northwest Rogers Area	21.50%	8
Petro Hunt et al Boot Hill lease	20.20%	3
Shirley State Area	12.40%	2
Ward Lease	8.25%	1
LA Pacific SU65	5.00%	1

During the year, the Company sold its interest in one of the 25 producing wells in this project, the Ray 2-6 No.1, for nearly four times its annual net cash flow. The Ray well was considered a non-core asset due to its distance from Pryme's other LaSalle production and it being a mature well in the second half of its productive life.

Wells located in Routh Point Field, LaSalle Parish

The project contains several new drilling targets and behind pipe opportunities that will be tested in the future.

Turner Bayou 3D Seismic Project (52% Interest / 39% Net Revenue Interest (NRI))

Pryme has a 52% interest (39% NRI) in the Turner Bayou project comprised of approximately 80 square miles (50,000 acres) which have been covered by Pryme's proprietary 3D seismic. Primary targets consist of six prospective formations ranging in depth from the Frio formation at 3,000 feet through to the Tuscaloosa formation at 16,000 feet. Turner Bayou remains one of Pryme's higher value projects.

During the year, three shallow Frio/Miocene wells were drilled into anomalies identified from the 3D seismic survey. Gas intervals with commercial potential were intersected in two of these wells. Of the 5 shallow wells drilled in Turner Bayou to date, 3 have been shut-in as potential producers. The discovery ratio is consistent with the performance of other operators in the Frio formation in the vicinity of the Turner Bayou project. Pryme and its partners will continue to drill shallow Frio anomalies during the first half of 2009. Whilst the primary Frio targets are natural gas bearing formations, oil accumulations are also possible but not as easy to detect by seismic interpretation.

Production from the Frio formation will depend on making a sufficient number of discoveries to justify the investment in a sales pipeline and related infrastructure. At that time the discoveries will be re-evaluated, completed as producing wells if warranted, and potential production will be determined.

The Frio must be developed with geological caution in order to optimise the return on investment. As wells are drilled the interpretation of the formation and seismic anomalies is modified to incorporate the new information. This, in turn, leads to the re-prioritisation of drilling targets. Similar on-trend 3D seismic surveys that target shallow objectives typically have fewer wells drilled in the early days and a greater amount of drilling is undertaken as the interpretation evolves. The project has engaged a geophysicist, who is a regional expert in this trend, to assist with this process as well as help further define the deep potential of the project area.

The geophysical evaluation of deeper anomalies in the Turner Bayou project area has resulted in the identification of a number of prospects at depths between 8,100 feet and 18,000 feet. Within this section the Eocene, Lower Cretaceous and Austin Chalk intervals are the higher priority formations. Analogous production from nearby oil and gas fields provides many positive indications of the potential of these horizons.

The cost of exploration of the deeper Turner Bayou prospects

Projects

is much higher than for the shallow prospects and Pryme will evaluate faming-out a portion of the working interest in the prospects to other explorers to mitigate risk and reduce capital costs. Typical farm-out terms would include an up-front cash payment and a carried working interest through to completion and would enable Pryme to reduce its risk, recover part of its investment and share in the upside from successful exploration.

Successful exploration of the deeper Turner Bayou prospects has the potential to create significant value for shareholders.

Drilling of Trifola 9 No. 1 well in Turner Bayou

Raven Project (40% Interest / 30% NRI)

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

Current gross production from all three producing wells in the Raven project is approximately 1,400 Mcf (net 416 Mcf) of natural gas and 21 Barrels (net 5 Barrels) of condensate per day.

The producing life of the Cotton Valley and related intervals is quite long, normally around twenty years. Cotton Valley gas typically has a high Btu content and both light oil (condensate) and gas are often produced from the same formation. Raven differs from Turner Bayou in that the Cotton Valley formation covers many hundreds of square miles and is regarded as an "engineering play." The exploration objective is to achieve the trend average of production (which has been established over a number of years of gas production from the productive formations) over a number of wells. The geological risk is limited to finding the parts of the Cotton Valley formation that are most permeable. Cotton Valley wells have typically cost approximately US$2.3m (100% working interest basis) to drill and complete (although this cost is currently declining) and lower commodity prices impact on the time to full recovery of capital costs.

The second well in this project (Grable 15 No.1), which was drilled in late 2007, was completed as a producing well in the early part of the year. The third well (Patterson 16 No.1) was drilled and completed as a producing well during the year.

The drilling of a fourth well in the Raven Project is under evaluation by Pryme and Nelson Energy (the operator) taking into account lower gas prices as well as significantly reduced costs of drilling, services and supplies. Drilling of this well is scheduled for the first half of 2009. however a commitment by Pryme has not yet been made.

Pryme has a good mineral acreage position in the Raven project with each producing well holding a 640 acre section of minerals to all depths.

Saline Point Project (24% Interest / 18% NRI)

This project is located in the southern portion of Catahoula Lake in LaSalle Parish, Louisiana. The project will target in excess of 1 million barrels of oil and is located near the Catahoula Lake and South Catahoula Lake oil fields which to date have produced 24 million and 4 million barrels of oil, respectively.

Drilling of the third Saline Point well is planned to commence during the first half of 2009 subject not only to access to the location and the water level in the adjacent lake but a Corps of Engineers wetlands permit. This well will test the potential for a number of oil-bearing stacked reservoir sands. The location has been determined from well log information from the two previous wells and places the new well at the optimum structural location.

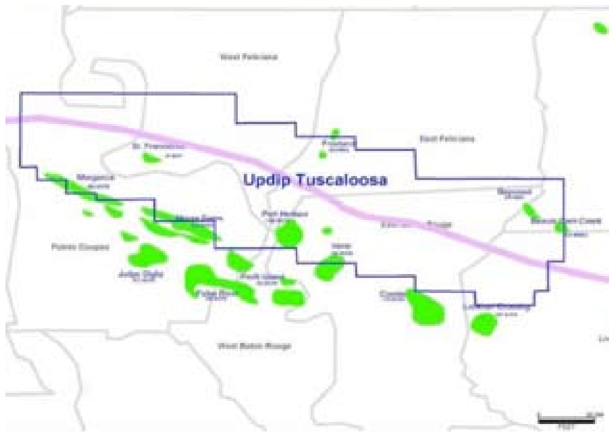
Projects

Up Dip Tuscaloosa Project (100% Interest / JV with Amelia)

The Up Dip Tuscaloosa Project covers an Area of Mutual Interest (AMI) of approximately 1,800 square kilometres (700 square miles). It is located in central Louisiana and includes 6,400 acres in East Baton Rouge and East Feliciana Parishes over which Pryme holds the mineral rights and which are on trend with the prolific Tuscaloosa Trend.

The Tuscaloosa Trend was discovered in 1975 by Chevron. It has produced over 2.8 trillion cubic feet (TCF) of natural gas and 120 million barrels of condensate over the past 32 years.

The AMI is shown in the following location map.



The AMI contains the Atocha prospect and two other prospects in respect of which Pryme has been leasing mineral rights.

Atocha is located five miles north of BP's Port Hudson Field which is the best producing field in the trend. The Port Hudson Field is a salt-cored anticline from which approximately 800 billion cubic feet (BCF) of gas and 90 million barrels of condensate (1.3 trillion cubic feet equivalent (TCFE) of natural gas) have been produced to date. The primary targets of the Atocha Prospect are over 17,000 feet deep and are analogous to producing formations in Port Hudson Field.

The Atocha prospect is the most advanced and contains a well which was drilled by a major oil company in 1980 when the Tuscaloosa Trend was relatively undeveloped and its production characteristics were unknown. Petrophysical analysis indicates that the well potentially contains over 100 feet of natural gas bearing sands.

The first exploration well to be drilled in Atocha will be the re-entry of this well with the objective of testing the potentially natural gas bearing sands and, if completed as a producing well, delivering gas into the nearby sales pipeline network.

Pryme intends to farm out its interest in the Atocha prospect (on either a stand-alone basis or together with its two additional Up Dip Tuscaloosa prospects) on terms that will include an upfront cash payment, to recoup costs expended to date, and a combination of a carried working interest and/or overriding royalty. Leasing within the two adjacent prospects has been suspended pending securing a farm-in partner so Pryme can focus its time and effort on the re-entry of the Atocha well.

Considerable preparatory work for the re-entry of the Atocha well has been completed. Notwithstanding the recent fall in the prices of oil and gas, it is believed that a successful re-entry will be economically attractive and it is intended that the re-entry will commence as soon as a farm-in partner is secured.

A discovery in the Atocha Project has the potential to significantly increase earnings and greatly increase the value of Pryme.

Kestrel Project (100% Interest / JV with Wave Exploration)

Kestrel is a Hackberry Sands Project located in Calcasieu Parish Louisiana and has been generated through the processing of 3D seismic data. The project area has been fully leased and is currently being marketed by the prospect generator Wave Exploration LLC that is headed by Kirk Barrel and Jerry Perret. To date Wave has been unsuccessful in sourcing a farm in partner for this project.

The project is located on 320 acres and it is proposed that Kestrel be drilled to a depth of 13,500 feet, targeting four "Hackberry" natural gas and condensate bearing sands.

Projects

Checkmate (100% Interest / JV with Amelia Resources)

All exploration work, including the reprocessing and interpretation of seismic data, in this project has been put on hold so that Pryme Management can focus on optimising its current inventory of prospects.

A sizeable investment in seismic data and subsequent reprocessing and interpretation of this data has been made on the Checkmate Project to date. Under the joint venture agreement with Amelia Resources, Pryme has the exclusive right to fund prospects generated by Amelia through to June 2010. Pryme is able to take advantage of Amelia's sixteen years of geological experience accumulated with companies like Amoco throughout an Area of Mutual Interest (AMI) covering a 5,650 square mile underexplored basin. Pryme will continue to review prospects offered by Amelia, choosing to pursue the ones that are ready to drill, have the best chance of commercial success and have a short lead time to production if a discovery is made. The generation of prospects within this AMI is at the sole expense of Amelia until such time that Pryme accepts to fund a particular prospect. Regardless of whether or not Pryme takes any prospects within the Checkmate AMI, a substantial library of seismic data, which Pryme owns, has been accumulated for use at a later date.

New Projects and Opportunities

Pryme is currently analysing several new oil and associated gas opportunities which could result in near term drilling and a short completion time to sales if successful. Leveraging Pryme's current cash position and existing industry relationships to increase production is a fundamental component of Pryme's growth strategy for 2009.

Further details of these projects will be announced if completed transactions result.

Key Drivers in Pryme's Strategy

- Explore proven oil and gas areas
- Remain onshore to reduce costs
- Close to existing infrastructure
- Utilize 3D seismic to reduce risk
- Take a material ownership
- Where possible control operations
- Secure acreage positions prior to larger players
- Short lead time to drilling
- Utilize team on the ground in the US

Corporate Governance Statement

The members of the Pryme Board of Directors believe there is a strong link between high standards of corporate governance and equity performance. We are committed to operating in accordance with Pryme's corporate governance policies, as determined by the Board, within the communities in which we have a presence.

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

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

Pryme is committed to implementing the highest possible standards of corporate governance and ensures, wherever possible, that its practices are consistent with the Second Edition of the Australian Securities Exchange (ASX) *Corporate Governance Council's Principles and Recommendations* (ASX Principles). In certain circumstances, due to the size and stage of development of Pryme and its operations, it may not be practicable or necessary to implement the ASX Principles in their entirety. In such instances, Pryme will identify the areas of divergence.

Principle 1 – Lay solid foundations for management and oversight

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

The Board establishes the strategic direction and a policy framework within which management works to manage the day-to-day business. It is the role of management to manage Pryme in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties. The Board Charter is reviewed and amended from time to time as appropriate.

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of Pryme; any candidate must confirm that they have the necessary time to devote to their Company Board position prior to appointment. In addition, Non-executive Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

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

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

Principle 2 – Structure the Board to add value

Pryme currently has four Directors, two of whom are Executive Directors, Mr Justin Pettett who is the Managing Director and Chief Executive Officer and Mr Ryan Messer who is the Chief Operating Officer. The remaining two Directors – Mr George Lloyd (Chairman) and Mr Ananda Kathiravelu are Non-executive Directors. The qualifications, experience and tenure of the Directors are set out in the 2008 Directors' Report.

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

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

Corporate Governance Statement

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

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

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

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

The Chairman, Mr Lloyd, is an independent Non-executive Director and there is a clear division of responsibility between the Chairman and the Chief Executive Officer. Mr Kathiravelu, who is a director of Armada Capital Ltd (formerly First Capital Corporate Ltd), an entity which provided corporate advisory services to Pryme in the lead up to and since the Company's ASX listing, can not be termed as independent. It is the intention of Pryme, in time, to appoint additional non-executive directors in order to comply with ASX Principle 2.1 that a majority of the Board should be independent; nevertheless, all incumbent directors bring an independent judgement to bear in Board deliberations.

The composition of the Board is balanced, with Directors possessing a broad range of skills, experience, expertise, qualifications and contacts relevant to Pryme's business. The Board Charter outlines in more detail the procedure for the selection and appointment of new Directors.

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

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

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development.

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

The Board has established a Remuneration & Nomination Committee which is primarily responsible for determining remuneration, establishment of recruitment policies and procedures, reviewing the performance of Directors and senior executives and reviewing the composition and competencies of the Board. The Committee charter is reviewed annually and is available on the Company's website. Given the small number of Directors, the Committee initially comprises all of the Non-Executive Directors. Currently, the Committee Chairman is Mr George Lloyd, an independent Director.

Details of the Committee members' attendance at Committee meetings are set out on page 23 of the 2008 Directors' Report.

To assist in its early stages of development, Pryme engaged a group of technically experienced individuals, the Advisory Board, as a unique resource to which senior executives could refer matters for input. As Pryme has matured, it has expanded its contact base and does not need to rely on just one group of individuals. Instead, Pryme may now refer matters to a variety of persons, including those who comprised the Advisory Board, depending on the prevailing issue and the individual's expertise. For this reason, during the year, Pryme formally disbanded the Advisory Board.

The Board carries out a Board assessment on an annual basis. The performance of the Chairman is reviewed and assessed by the other Directors, and the Chairman reviews and assesses the performance of the other Directors. During 2008 a Board self-assessment was undertaken with

Corporate Governance Statement

the outcomes discussed extensively at a strategy session in November. These outcomes have formed the basis for series of matters arising which the Board intends to address over the short to medium term.

Principle 3 – Promote ethical and responsible decision-making

The Board has adopted a Code of Conduct and Ethics which is published on the Company's website. Pryme is committed to operating to the highest standards of ethical behaviour, honesty and fairness in all relationships with its stakeholders and the purpose of the Code is to act as a guide to uphold this commitment. These stakeholders include employees, contractors, clients, customers, suppliers, joint venture partners, shareholders, government authorities, regulators, creditors and the community as whole. This Code governs all Pryme commercial operations and the conduct of Directors, employees, consultants, contactors, advisors and all other people when they represent Pryme.

A copy of this Code is available on the Pryme website (under Corporate Governance).

The Board, senior executives and all employees of Pryme are committed to implementing this Code of Conduct and Ethics and each individual is accountable for such compliance. A copy of the Code is given to all employees, contractors and relevant personnel, including Directors.

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

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

The Code of Conduct also includes the Pryme Share Trading Policy for the Directors, employees, consultants and contractors.

Consistent with the legal prohibitions on insider trading contained in the Corporations Act, all Pryme personnel are prohibited from trading in Pryme's securities while in possession of material non–public information. Material non-public information is information, which a reasonable person would expect to have a material affect on the price or value of Pryme's securities. The Policy allows Pryme personnel, and their related parties, to buy or sell shares during the three weeks from the day following the release of the Appendix 4C, full year results, the half year results and the AGM. Trading outside the permitted windows is allowed only with the prior approval of the Board which will consider the matter having regard to all relevant facts.

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

Principle 4 – Safeguard integrity in financial reporting

The Board has established an Audit Committee which is primarily responsible for determining the reliability and integrity of financial information for inclusion in the financial statements, audit, accounting and financial reporting obligations of Pryme, safeguarding the independence of external auditors and financial risk management.

The Audit Committee operates in accordance with its Charter approved by the Board. The Audit Committee Charter, which is published on Pryme's website, is reviewed regularly to ensure it is in line with emerging market practices. Given the small number of Directors, the Committee initially comprises all of the Non-Executive Directors. Currently, the Committee Chairman is Mr George Lloyd, an independent Director, who the Board considers to the most appropriately qualified of all incumbent Directors to be charged with this responsibility and oversight. Given Mr Lloyd's role as both Chairman of the Board of Pryme and Chairman of the Audit Committee, the Company has departed from ASX Principle 4.2 which recommends that the Chairman of the Board not be the Chairman of the Audit Committee. Importantly, at its absolute discretion, the Committee, or its members, may meet outside of a Committee Meeting with the external auditors of Pryme.

The Directors and their qualifications, experience and tenure are set out in the Directors Report together with the number of meetings and details of attendance.

The Audit Committee is responsible for reviewing the nomination, performance and independence of the external auditors. Candidates for the position of external auditor of Pryme must be able to demonstrate complete independence from Pryme and an ability to maintain independence through the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis. Other than this mandatory criteria, the

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Board may select an external auditor based on criteria relevant to the business of Pryme such as experience in the industry in which Pryme operates, references, cost and any other matters deemed relevant by the Board.

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

Principle 5 – Make timely and balanced disclosure

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

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

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

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

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

1. concerning Pryme that a reasonable person would expect to have a material effect on the price or value of Pryme's shares; and

2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of Pryme's shares.

Such matters are advised to the ASX immediately they are identified as being material. Upon confirmation of receipt from the ASX, Pryme posts all information disclosed in accordance with this policy on Pryme's website in an area accessible by the public.

A copy of the Continuous Disclosure Policy is available on the Pryme website (under Corporate Governance).

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

Principle 6 – Respect the rights of shareholders

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

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

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

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

Pryme also makes available a telephone number and email address for shareholders to make enquiries of Pryme.

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

- Corporate Governance Statement
- Board Charter
- Audit Committee Charter
- Remuneration and Nomination Committee Charter
- Code of Conduct and Ethics
- Continuous Disclosure Policy
- Risk Management Policy
- Shareholder Communications Policy

Corporate Governance Statement

Principle 7 – Recognise and manage risk

The Board is responsible for establishing policies on risk management and internal control and acknowledges the importance of effective risk management to the long term success of Pryme. Accordingly, the Board has implemented the following control framework:

Pryme has a Board approved Risk Management Policy, published on the website, that assists the Group in identifying and managing risk in accordance with best practice.

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

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

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

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

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

- the statement given in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal compliance and control; and
- Pryme's risk management and internal compliance and control system is operating efficiently and effectively in all material respects in relation to financial reporting risks.

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

Principle 8 – Remunerate fairly and responsibly

The Board has established a Remuneration & Nomination Committee to provide assistance in fulfilling its responsibilities in respect to establishing appropriate remuneration levels and incentive policies for employees. As described previously, the Remuneration & Nomination Committee reviews all remuneration and performance related matters of Pryme and operates in accordance with its Charter.

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

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

(b) decisions in relation to executive remuneration packages;

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

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

The Pryme Code of Conduct & Ethics states that executives are not permitted to enter into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

The Remuneration Report for the 2008 year and further details about the Remuneration Policy of Pryme are set out in the 2008 Directors' Report.

Directors' Report

In accordance with a resolution of directors, the directors present their report together with the Financial Report of Pryme Oil and Gas Limited (Pryme) and its wholly owned subsidiaries (together referred to as the Consolidated Group) for the financial year ended 31 December 2008 and the Independent Audit Report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

1. Directors

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

(a) George Lloyd – Chairman

Independent Non–Executive Director (Appointed 29 January 2008)

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

He has more than 25 years' senior management experience in the resources and energy sectors, with a focus on business development, corporate strategy, mergers and acquisitions and exploration management. He is the Chairman of AWR Lloyd Limited, an Asian-based corporate finance and strategy advisor to the energy, mining and metals industries in the Asia-Pacific region.

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

- Cape Alumina Limited (Chairman, appointed January 2009)
- Ausenco Limited (Non-Executive Director, appointed May 2005);
- Goldlink IncomePlus Limited (Non-Executive Director, November 2007 to April 2008) and
- Equatorial Mining Limited (Non-Executive Director, November 2002 to February 2006).

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

Executive Director (Appointed 1 December 2005)

As the Managing Director, Chief Executive Officer and co-founder of the Sterling Energy Group of Companies, Mr Pettett has broad experience as a public company director with positions in senior management.

Mr Pettett has worked successfully as a business analyst, broker and Managing Director of medium sized businesses for the past fifteen years, the last eight in the U.S. oil and natural gas industry. He has widespread industry experience, specialising in oil, natural gas and coal bed methane acquisitions and development, as well as extensive commercial knowledge in financial analysis, business development, investor relations, capital aggregation and financial and administrative management.

Mr Pettett also has experience dealing with and advising clients in Australia and worldwide on a range of commodities including base, precious metals and energy.

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

(c) Ryan Messer - Chief Operating Officer

Executive Director (Appointed 1 December 2005)

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

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

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

Directors' Report

(d) Ananda Kathiravelu

Non–Executive Director (Appointed 1 December 2005)

Mr Kathiravelu holds a Bachelors degree in Business and a Graduate Diploma in Applied Finance and Investment. He is an associate of the Securities Institute of Australia and has over 18 years experience in the financial services industry.

His areas of expertise include corporate advice, capital raising and mergers and acquisitions, with primary focus on the small cap and emerging business sectors.

He is the Managing Director of Armada Capital Ltd, an investment bank and also holds a directorships in the following ASX listed company:

- Transit Holdings Limited (10 August 2006 – current) (Non-Executive Chairman)

(e) John Dickinson – Vice Chairman

Independent Non–Executive Director (Appointed 1 December 2005; Resigned 1 June 2008)

Mr Dickinson graduated from the Tulane University School of Business and has 33 years experience in energy sector drilling, completions, production operations and project finance, primarily in the areas of oil, natural gas and coal bed methane resource development, gas gathering, gas compression, gas transmission and project finance of combustion-turbine power plants.

He operated a large oil & gas producing property in South Texas for six years with Mobil Oil and others, and co-developed four electric power projects in the U.S. He later pursued a coalbed methane technology transfer opportunity in Colombia with ECOPETROL, the state-owned oil & gas company, which concluded successfully.

Mr Dickinson is active in the continuing investigation and testing of organic shales and bituminous coals in Oklahoma in the Arkoma and Cherokee Basins, and several other basins in the U.S. He has been published several times in industry journals, including: Independent Energy Magazine and Cogeneration & Small Power Monthly and has recently represented venture capital funds in London, Connecticut and Hong Kong in the investigation of new drilling technologies and power project development, including renewable energy.

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

(f) Philip Judge

Non–Executive Director (Appointed 25 September 2006; Resigned 29 January 2008)

Mr 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 involved with the following companies:

- Founding director of The Anglo Far-East Company, an international gold and silver trading and custodial 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.

Directors' Report

2. Company Secretaries

The following persons jointly held the position of company secretary at the end of the financial year:

Janine Rolfe (BEc, LLB (Hons)) is a corporate lawyer specialising in company secretarial services, She is the company secretary of two other ASX listed entities: Tishman Speyer Office Fund and WDS Limited. Janine is also company secretary of the charitable body, Qantas Foundation Trustee Limited.

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

3. Principal Activities

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

4. Review of Operations and State of Affairs

A review of, and information about, the Consolidated Group's operations, including the results of those operations and changes in its state of affairs during the year together with the information about the financial position of the Consolidated Group appears in the 2008 Annual Report. There are no other significant changes in the state of affairs of the Consolidated Group.

5. Events Subsequent to Reporting Date

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

- As announced to the ASX on 6 February 2009, Pryme has taken a 25% working interest (18.75%- 20% net revenue interest) in the Four Rivers Project.

6. Likely Developments

The Consolidated Group intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America. The strategies and objectives of the Consolidated Group are reviewed and discussed in greater detail in the 2008 Annual Report.

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

7. Environmental Regulations and Performance

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

There have been no significant known breaches of the Consolidated Group's licence or permit conditions. Furthermore, no government agency has notified the Consolidated Group of any environmental breaches during the period ended 31 December 2008.

Directors' Report

8. Dividends

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

9. 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 2009	2,118,000	0.20
31 December 2009	500,000	0.40
Total	**2,618,000**	

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 Incentives

As at the date of this Report, there were 2,118,000 Options outstanding under the Pryme Directors' Incentive Option Plan (DIOP). The options have vested pursuant to the achievement of certain performance hurdles as set out in Note 5(e) of the Notes to the Financial Statements and are eligible to be exercised prior to 30 June 2009.

As announced to the ASX on 28 February 2008, John Dickinson, Justin Pettett and Ryan Messer advised the Board that they had voluntarily relinquished 7,500,000 options granted under the DIOP with these options lapsing effective 31 December 2007. In addition, as announced to the ASX on 26 June 2008, Messrs Dickinson, Pettett and Messer advised the Board that they had voluntarily relinquished 6,591,000 options granted under the DIOP and 3,380,000 rights under the Directors' Share Incentive Plan (DSIP).

Following approval by shareholders on 5 March 2008, and as an incentive attaching to his Non-Executive Chairmanship, George Lloyd was issued 500,000 options with an exercise price of $0.40 and an expiry date of 31 December 2009.

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 ($)
24 January 2008	75,000	0.20
2 July 2008	2,575,000	0.20
3 July 2008	1,100	0.40
Total	**2,651,100**	

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

Directors' Report

10. Directors' Meetings

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

	Board Of Directors		Audit Committee (#)		Remuneration Committee(##)	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
George Lloyd	12	12	2	2	1	1
John Dickinson	5	4	1	1	-	-
Justin Pettett	12	12	2 (#)	2 (#)	n/a	n/a
Ryan Messer	12	12	2 (#)	2 (#)	n/a	n/a
Ananda Kathiravelu	12	12	2	2	1	1
Philip Judge	-	-	-	-	-	-

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

Committee comprises Non-Executive Directors.

11. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2008 are as follows:

Director	Ordinary Shares	Options over Ordinary Shares[1] (DIOP)		American Depository Receipts
		$ 0.20	$0.40	
John Dickinson	1,700,000	759,000[2]	-	-
Justin Pettett	2,815,000	600,000[2]	-	-
Ryan Messer	1,906,925	759,000[2]	-	1,110[3]
Ananda Kathiravelu	75,000	-	-	-
Philip Judge	4,565,163	-	-	-
George Lloyd	1,350,000	-	500,000	-

[1]Further information on Options granted to directors as part of their remuneration is set out in Note 5 of the Financial Statements.

[2] These vested options are available to be exercised prior to 30 June 2009.

[3]Equivalent to 11,100 ordinary shares.

Other than as stated above in relation to options and, subject to Shareholder approval at the 2008 AGM, the proposed awards under the Pryme Oil & Gas Long-Term Inventive Plan, there are no contracts to which a director is a party or under which a director is entitled to a benefit that confer a right for the director to call for shares in Pryme.

12. Indemnification and Insurance of Officers and Auditors

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

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

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, Moore Stephens, Pryme's auditor has the benefit of an indemnity to

Directors' Report

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 2008 or to the date of this Report.

13. Non-Audit Services

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

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

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

   i. Moore Stephens' services have not involved partners or staff acting in a managerial or decision making capacity within Pryme or in the processing or originating of transactions; and

   ii. the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The auditor's independence declaration under section 307C of the Corporations Act is set out on page 35 and forms a part of the Annual Financial Report for the year ended 31 December 2008.

14. Proceedings on behalf of the Consolidated Group

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

15. Remuneration Report (Audited)

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

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

Remuneration Policies and Practices

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

Executive Remuneration Philosophy

At Pryme, Executive Remuneration consists of:

- Total Remuneration (TR) = Fixed Remuneration (FR) + Short Term Incentive (STI) + Long Term Incentive (LTI).
- STI and LTI are the 'at risk' portions of remuneration.
- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis.
- LTI is delivered in an equity award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.

Directors' Report

- The Board may also determine to pay a bonus in cash in circumstances of outstanding performance not otherwise appropriately rewarded.
- The Remuneration Committee will review the structure of at risk remuneration from time to time and report to the board. Such a review may include, but not be limited to changing the proportion of Total Remuneration which is at risk, the payment of Short Term and Long Term Incentives and the proportion of the at risk remuneration between Short Term and Long Term Incentive.

Total Reward Mix

The proportion of Total Remuneration at risk is related to the agreement on remuneration struck between the Company and the executive, the Company's expectations of executive performance and the executive's position in the Company. The proportion of FR will generally not change on a year to year basis but may reviewed and modified by the Board.

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

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

Fixed Remuneration

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

At-Risk Remuneration

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

STI

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

LTI

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

The proposed LTI scheme for Pryme will be the grant of equity in the form of performance rights (PRs) which are subject to the achievement of a dual performance measure (for US residents Restricted Stock Units (RSU), which have similar value characteristics). Typically such a performance measure would be based on achieved levels of growth of Total Shareholder Return (TSR) & earnings per share (EPS). However, in Pryme's case, at least for the short to medium term, it is considered that the annual growth of Total Shareholder Return and the annual growth of oil & gas sales per share 'SPS' (expressed as barrels of oil equivalent 'BOE' per share, where the oil equivalent of natural gas is determined on a value basis rather than the more conventional energy basis) are more appropriate measures of performance.

Further details, including proposed vesting conditions in relation to the inaugural award under the LTI scheme, are set out in the 2009 Notice of Meeting.

Non-Executive Director Remuneration

The Non-Executive Directors are remunerated distinctive from the Executive Directors.

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 2008, $236,532 of the fee pool was used.

Upon shareholder approval at the Annual General Meeting held on 5 March 2008, Mr Lloyd was issued 500,000 options. This was a unique award to Mr Lloyd in anticipation of his contribution as the incoming Chairman of the Company. These

Directors' Report

options are exercisable at 40 cents each on or before 31 December 2009. Upon exercise, these options will convert to listed shares in Pryme on a one-for-one basis.

Equity Participation

Generally, non-executive Directors are not entitled to participate in any equity based remuneration schemes.

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

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

Relationship between Policy and Pryme's Performance - audited

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

Previously, Pryme's remuneration arrangement comprised the award of share options which would vest over time subject to the achievement of goals over a number of years. This proved to be a significant impost on the Company's financial performance with no identifiable benefit to shareholders. The hurdles established as vesting conditions in respect of previous awards became distinct from the Company's strategies and unattainable targets no longer act as an incentive. During the year all unvested option entitlements and all rights entitlements under the initial remuneration philosophy were voluntarily relinquished by Messrs Pettett and Messer. As such, it is difficult to continue to identify the relationship between the prior remuneration philosophy and Pryme's performance.

The Remuneration & Nomination Committee (Committee) identified the need for revised at-risk remuneration arrangements (these arrangements are to be considered by Shareholders at the 2009 Annual General Meeting). In formulating the proposed scheme, the Committee considered the appropriate elements of incentive plan design and canvassed market practice. The proposed scheme, the Pryme Oil and Gas Limited Long Term Incentive Plan (Plan), is designed to put a portion of executive remuneration "at-risk" and provide reasonable levels of incentives to key executives to encourage and reward performance that adds value to the Company for all Shareholders.

Specifically, the value to Shareholders will be readily measurable only if targets that align to Pyrme's strategy are met. Under the FY2009 Award, there will be two hurdles which test Pryme's relative production growth and the attainment of a total shareholder return comparable with the energy sector (Performance Conditions). The Board considered it appropriate to have a dual test since:

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

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

Directors' Report

Each Performance Condition is weighted evenly and details are as follows:

Production Target (For which the award of up to 50% of the Total Available Incentive may be granted)		Total Shareholder Return Target (For which the award of up to 50% of the Total Available Incentive may be granted)	
Growth in Oil and Gas Sales Per Share	**Portion of Available Incentives to be Granted**	**Growth in TSR**	**Portion of Available Incentives to be Granted**
< 30% above previous year	Nil	< Energy Index growth	0
30% above previous year	40%	Equal to Energy Index growth	50%
> 30% and < 50% above previous year	An additional 1% for each 1% increment	Between 1 and 1.5 times Energy Index growth	1% for each 0.2 times increase in Energy Index over 1
50% or more above previous year	100%	> 1.5 times Energy Index growth	100%

A second hurdle that must be met as a precondition to vesting of Incentives is continued employment with Pryme as set out below. This time scale recognises the need to incentivise top tier management in the medium-term (and acknowledges the tight labour conditions) and also achieves the longer-term objective of retaining the individuals who are key to executing Pryme's strategies.

Time	Available Incentives to Vest
Base Date + 1 years (1 Jan 2011)	50%
Base Date + 2 years (1 Jan 2012)	50%

Anti-Hedging Policy

No Pryme personnel is permitted to enter into transactions with securities (or any derivative thereof) which limit the economic risk of any unvested entitlements awarded under an Pryme equity-based remuneration scheme.

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

Continuous Improvement

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

REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS [1]		TOTAL	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	CASH, SALARY & FEES	CASH PROFIT SHARE	NON-CASH BENEFIT	TOTAL	SUPER-ANNUATION	LONG TERM BENEFITS	OPTIONS	RIGHTS			
	$	$	$	$	$		$	$	$	%	%
Non-Executive Directors											
GEORGE LLOYD (CHAIRMAN)											
2008	-	-	-	-	-	-	67,500		**67,500**	-	-
2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-
JOHN DICKINSON											
2008	32,792			**32,792**	-	-	106,060	98,735	**237,587**	86	45
2007	104,311	-	-	**104,311**	-	-	291,000	267,890	**663,201**	84	44
ANANDA KATHIRAVELU											
2008	81,795	-	-	**81,795**	7,362	-	-	-	**89,157**	-	-
2007	81,795	-	-	**81,795**	7,362	-	-	-	**89,157**	-	-
PHILIP JUDGE											
2008	-	-	-	-	-	-	-	-	-	-	-
2007	-	-	-	-	-	-	-	-	-	-	-

Executives											
JUSTIN PETTETT Managing Director											
2008	296,535			**296,535**	25,388		223,000	207,600	**752,523**	57	30
2007	296,556	-	-	**296,556**	26,619	-	448,000	413,200	**1,184,375**	73	36
RYAN MESSER Chief Operating Officer											
2008	269,161	-	-	**269,161**	-		127,271	118,482	**514,914**	48	25
2007	205,251	-	-	**205,251**	-		291,000	267,890	**764,141**	73	38
SANDRA GAFFNEY Group Financial Controller											
2008	15,000	-	-	**15,000**	1,350	-	-	-	**16,350**		
2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
TOTAL											
2008	**695,283**	**-**	**-**	**695,283**	**34,100**	**-**	**523,831**	**424,817**	**1,678,031**	-	-
2007	**687,913**	**-**	**-**	**687,913**	**33,981**	**-**	**1,030,000**	**948,980**	**2,700,874**	-	-

[1] Total Directors ' remuneration of $1,678,031 (2007: $2,700,874) comprises of $729,383 (2007: $721,894) which was paid in cash or cash equivalents to directors and an amount of $948,648 (2007: $1,978,980) which is attributable to the expensing of the Directors' Incentive Option Plan (DIOP) and Directors' Share Incentive Plan (DSIP) in accordance with Australian Accounting Standard AASB2 – Share-based payment (AASB 2). AASB2 requires securities (rights and options in case of Pryme) to 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. In the case of DIOP, no further performance hurdles were attained in 2008. During the 2008 financial year, all outstanding options and rights were relinquished by the directors. In accordance with AASB2, all related amounts were reversed in the Group's financial report by adjustment to the retained earnings via the Statement of Changes in Equity.

Directors' Report

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION - UNAUDITED

During the financial year, there were no short term incentive bonuses awarded to any key management personnel as part of their compensation.

FAIR VALUE OF OPTIONS – FACTORS AND ASSUMPTIONS - AUDITED

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

Grant Date		Expiry Date	Fair Value per option ($)	Exercise Price ($)	Price of shares on grant date ($)	Estimated volatility (%)	Risk free interest rate (%)	Dividend yield (%)
31.07.06	Tranche 1	30.06.09	0.1784	0.20	0.73	75.0	5.695	0
31.07.06	Tranche 2	30.06.09	0.1784	0.20	0.73	75.0	5.695	0
31.07.06	Tranche 3	30.06.09	0.1784	0.20	0.73	75.0	5.695	0
06.03.08	Chairman	31.12.09	0.1350	0.40	0.275	111.5	6.510	0

During the year 500,000 options with an exercise price of $0.40 and an expiry date of 31 December 2009 were issued upon the appointment of Mr George Lloyd as a Non Executive Director and Chairman of the Board. No options have been granted since the end of the financial year.

On 20 April 2007, 2,618,000 options under the DIOP vested and became exercisable. As at 31 December 2008, 500,000 had been exercised. The remaining 2,118,000 options under the DIOP are exercisable until 30 June 2009.

The options in respect of Tranche 2 and 3, originally exercisable until 30 June 2009, were voluntarily relinquished by the directors during 2008.

If any of the recipients cease to be a director of Pryme, the recipient is entitled to retain any Options that have vested and not yet been exercised 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 Per Share ($)
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 is the date of 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).

During 2008, rights under the DSIP were voluntarily relinquished by Messrs Pettett and Messer and lapsed in respect of Mr Dickinson pursuant to his resignation as a director.

Directors' Report

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – AUDITED

Details of entitlements to options over ordinary shares in Pryme that were granted to key management personnel as compensation 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	Voluntarily Relinquished	Lapsed	Held at the end of the Financial year	Vested during the year	Vested and exercisable as at 31 December 2008
Executive Directors									
Justin Pettett	2008	4,500,000	-	-	(3,900,000)	-	600,000	-	600,000
	2007	5,000,000[1]	-	500,000		-	4,500,000	1,100,000	600,000
Ryan Messer	2008	3,450,000	-	-	(2,691,000)		759,000	-	759,000
	2007	3,450,000[1]	-	-		-	3,450,000	759,000	759,000
Non –Executive Directors									
John Dickinson	2008	3,450,000	-	-	-	(2,691,000)	-	-	759,000
	2007	3,450,000[1]	-	-		3,450,000	3,450,000	759,000	759,000
Ananda Kathiravelu	2008	-	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-
Philip Judge	2008	-	-	-	-	-	-	-	-
	2007	-	-	-		-	-	-	-
George Lloyd	2008	-	500,000	-	-	-	500,000	500,000	500,000
	2007	-	-	-		-	-	-	-

[1] The initial entitlement to options arose on 31 July 2006. The directors voluntarily relinquished all outstanding options during 2008. The remaining vested options are available to be exercised until 30 June 2009 with an exercise price of $0.20 and a fair value of $0.1784 per option. These options vested pursuant to performance hurdles being attained.

As at 31 December 2008, there were no vested and un-exercisable options as under the rules of the DIOP, all vested options may be exercised.

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.

Directors' Report

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/ voluntarily relinquished in year [1]	Financial year in which grant vests	Min ($)	Max ($)
Executive Directors							
Justin Pettett	1,100,000	31.07.06	-	-	31.12.07	n/a	n/a
	2,150,000	31.07.06	-	100%	31.12.09	-[2]	-[3]
	1,750,000	31.07.06	-	100%	31.12.09	-[2]	-[3]
Ryan Messer	759,000	31.07.06	-	-	31.12.07	n/a	n/a
	1,483,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
	1,207,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
Non –Executive Directors							
John Dickinson	759,000	31.07.06	-	-	31.12.07	n/a	n/a
	1,483,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
	1,207,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
Ananda Kathiravelu	-	-	-	-	-	-	
Philip Judge	-	-	-	-	-	-	-
George Lloyd	500,000	-	100%	-	31.12.08	-	-

[1]The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the options being voluntarily relinquished by Messrs Pettett and Messer and lapsing in respect of Mr Dickinson pursuant to his resignation as a director.
[2]The minimum value of options yet to vest is $nil as the options have been voluntarily relinquished/lapsed.
[3]The maximum value of options yet to vest is $nil as the options have been voluntarily relinquished/lapsed.

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 $[1]	Exercised in Year $[2]	Forfeited in Year $[3]	Total Option Value in Year $
Executive Directors					
Justin Pettett	2008	-	-	695,760	(695,760)
	2007	-	97,500	-	-
Ryan Messer	2008	-	-	480,074	(480,074)
	2007	-	-	-	1,092,320
Non –Executive Directors					
John Dickinson	2008	-	-	480,074	(480,074)
	2007	-	-	-	546,160
Ananda Kathiravelu	2008	-	-	-	-
	2007	-	-	-	-
Philip Judge	2008	-	-	-	-
	2007	-	-	-	-
George Lloyd	2008	67,500	67,500	-	67,500
	2007	-	-	-	-

[1] 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.
[2] The value of options exercised during the year is calculated as the market price of shares of Pryme on the ASX as at the close of trading on the date the Options were exercised after deducting the price paid to exercise the Options.
[3] The value of the options forfeited in the year is the fair value of the options calculated at grant date using a Black-Scholes Merton pricing model.

Directors' Report

SUMMARY OF KEY CONTRACTS TERMS – AUDITED

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

<table>
<tr><th>Contract Details</th><th>Justin Pettett</th><th>Ryan Messer</th></tr>
<tr><td>Duration of contract</td><td>Three Years (commencing from 31 May 2007). The term of the Executive Employment Agreement may be extended for a further three years.</td><td>Three Years (commencing from 26 June 2006). The term of the Executive Employment Agreement may be extended for a further three years.</td></tr>
<tr><td>Termination notice period and payments</td><td>Termination by Pryme with reason:
(a) By giving 3 months written notice if the MD is incapacitated by illness or injury which prevents the MD from performing his duties for 9 months (consecutive or aggregate in any 12 months) or become of unsound mind or becomes under the control of a committee or officer under the law relating to mental health.
The notice period can be disposed of by paying 12 months salary.
(b) By giving 3 months written notice if:
1. the MD commits an serious or persistent breach of the Executive Services Agreement not remedied within 14 days;
2. the MD demonstrates incompetence and does not perform his duties and the MD has been given reasonable opportunity to remedy the specific issues following each occasion;
3. the MD commits or is guilty of Gross Misconduct;
4. the MD refuses or neglects to comply with any lawful reasonable direction by Pryme which is not rectified within 21 business days of receipt of notice.
The notice period can be disposed of by paying 12 months salary.
(c) Without notice if the MD is convicted on any major criminal offence which brings Pryme into lasting disrepute, by giving notice effective immediately and without payment of any salary other than salary accrued to that date.
Termination by Pryme without reason:
3 months written notice and making payment of 9 months salary after the expiry of the notice period. Notice period can be dispensed with and payment of 12 months salary made.
Termination by the MD:
(a) If Pryme commits a serious or persistent breach of the Executive Services Agreement and not remedied within 28 days of receipt of notice, by giving notice effective immediately;
(b) By giving 3 months written notice.
Annual Leave payment:
On termination the MD is entitled to payment in lieu of the annual leave owing to him.</td><td>Termination by Pryme with reason:
(a) By giving 3 months written notice if the COO is incapacitated by illness or injury which prevents the COO from performing his duties for 9 months (consecutive or aggregate in any 12 months) or become of unsound mind or becomes under the control of a committee or officer under the law relating to mental health. The notice period can be disposed of by paying 3 months salary.
(b) By giving 1 months written notice if:
1. the COO commits an serious or persistent breach of the Executive Services Agreement not remedied within 14 days;
2. the COO demonstrates incompetence and does not perform his duties and the COO has been given reasonable opportunity to remedy the specific issues following each occasion;
3. the COO commits or is guilty of Gross Misconduct;
4. the COO refuses or neglect`s to comply with any lawful reasonable direction by Pryme which is not rectified within 21 business days of receipt of notice.
The notice period can be disposed of by paying 6 months salary.
(c) Without notice if the COO is convicted with any major criminal offence which brings Pryme or any of its Related Bodies Corporate into lasting disrepute, by giving notice effective immediately and without payment of any salary other than salary accrued to the date of termination.
Termination by Pryme without reason:
6 months written notice. Notice period can be dispensed with and 6 months salary made (or pro-rata having regard to the remaining notice period).
Termination by the COO:
(a) If Pryme commits a serious or persistent breach of the Executive Services Agreement and not remedied within 28 days of receipt of notice, by giving notice effective immediately;
(b) By giving 6 months written notice.
Annual Leave payment:
On termination the COO is entitled to payment in lieu of the annual leave owing to him.</td></tr>
</table>

The Executive Service Agreements with both the Managing Director and the Chief Operating Officer are being reviewed by the Remuneration & Nomination Committee. Amended key terms will be described in the 2009 Annual Report.

Directors' Report

16. Corporate Governance

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

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

Justin Pettett
Managing Director
Brisbane, Queensland
26 February 2009

Auditor's Independence Declaration

MOORE STEPHENS

Offices

Brisbane
Burdekin
Cairns
Innisfail
Toowoomba
Townsville

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

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2008 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

Moore Stephens

MJ McDonald
Director

Date 17th February 2009

Brisbane, Queensland

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An independent member of Moore Stephens International Limited – members in principal cities throughout the world

Financials

INCOME STATEMENT
FOR YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Revenue	2	3,213,831	1,698,296	809,512	673,578
Accounting and Audit Fees		(303,245)	(268,900)	(120,936)	(160,876)
Depreciation and amortisation expenses and write offs	3	(2,043,642)	(650,925)	(2,965)	(3,253)
Directors Remuneration	5(a)	(684,824)	(721,894)	(382,871)	(412,332)
Directors Remuneration – DIOP and DSIP	5(a)	(948,648)	(1,978,980)	(498,102)	(861,200)
Employee benefits expense		(88,904)	(64,488)	(57,424)	(24,933)
Legal Expenses		(38,946)	(88,424)	(24,644)	(88,686)
Production Costs		(607,833)	(392,819)	-	-
Professional Consulting Fees		(454,965)	(212,442)	(277,284)	-
Share Registry and Listing Costs		(36,864)	(53,363)	(36,864)	(47,442)
Travel and Accommodation Expenses		(199,686)	(338,452)	(128,494)	(255,491)
Other expenses		(277,393)	(270,856)	(92,864)	(148,315)
Share of net profits of associates and joint ventures		(17,895)	(18,724)	-	-
Loss before income tax	3	(2,489,014)	(3,361,971)	(812,936)	(1,328,950)
Income tax expense	4	-	-	-	-
Net Loss attributable to members of the parent entity		(2,489,014)	(3,361,971)	(812,936)	(1,328,950)
Overall Operations					
Basic earnings per share (cents per share)	7	(2.3)	(3.6)		
Diluted earnings per share (cents per share)	7	(1.9)	(2.3)		

The accompanying notes form part of these financial statements

Financials

BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	2,963,925	1,854,713	2,823,586	1,746,107
Trade and other receivables	9	643,475	350,379	19,661	121,723
Other current assets		60,970	-	-	-
TOTAL CURRENT ASSETS		3,668,370	2,205,092	2,843,247	1,867,830
NON-CURRENT ASSETS					
Trade and other receivables	9	-	-	26,204,219	22,526,696
Investments accounted for using the equity method	10	10,369,973	6,308,229	-	-
Property, plant and equipment	12	27,757	5,826	9,970	5,826
Working Interest	14	15,947,838	11,262,436	-	-
Other non-current assets		-	-	-	114
TOTAL NON-CURRENT ASSETS		26,345,568	17,576,491	26,214,189	22,532,636
TOTAL ASSETS		30,013,938	19,781,583	29,057,436	24,400,466
CURRENT LIABILITIES					
Trade and other payables	15	393,227	1,115,634	66,755	187,667
TOTAL CURRENT LIABILITIES		393,227	1,115,634	66,755	187,667
TOTAL LIABILITIES		393,227	1,115,634	66,755	187,667
NET ASSETS		29,620,711	18,665,949	28,990,681	24,212,799
EQUITY					
Issued capital	16	29,902,450	21,508,685	29,902,450	21,508,685
Reserves		3,831,874	2,566,850	445,351	4,865,948
Accumulated losses		(4,113,613)	(5,409,586)	(1,357,120)	(2,161,834)
TOTAL EQUITY		29,620,711	18,665,949	28,990,681	24,212,799

The accompanying notes form part of these financial statements

Financials

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2008

	Note	Ordinary Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Total
Consolidated Group		**$**	**$**	**$**	**$**	**$**
Balance at 1 January 2007		14,952,733	(2,047,615)	(610,656)	2,702,667	14,997,129
Loss for the year		-	(3,361,971)	-	-	(3,361,971)
Shares issued during the year	16	6,929,500	-	-	-	6,929,500
Share capital raising cost		(373,548)	-	-	-	(373,548)
Adjustments from translation of foreign controlled entities		-	-	(1,688,442)	-	(1,688,442)
Options issued during the year		-	-	-	2,163,281	2,163,281
Balance at 31 December 2007		21,508,685	(5,409,586)	(2,299,098)	4,865,948	18,665,949
Loss for the year		-	(2,489,014)	-	-	(2,489,014)
Shares issued during the year	16	7,133,809	-	-	-	7,133,809
Share capital raising cost		(406,069)	-	-	-	(406,069)
Adjustments from translation of foreign controlled entities		-	2,288	5,685,621	-	5,687,909
Transfer capital raising costs options not exercised		468,300	-	-	(468,300)	-
Transfers options not exercised		1,197,725	-	-	(1,197,725)	-
Transfers from retained earnings		-	3,782,699	-	(3,782,699)	-
Options issued during the year		-	-	-	1,028,127	1,028,127
Balance at 31 December 2008		**29,902,450**	**(4,113,613)**	**3,386,523**	**445,351**	**29,620,711**
Parent Entity						
Balance at 1 January 2007		14,952,733	(832,884)	-	2,702,667	16,822,516
Loss for the year		-	(1,328,950)	-	-	(1,328,950)
Shares issued during the year	16	6,929,500	-	-	-	6,929,500
Share capital raising cost		(373,548)	-	-	-	(373,548)
Options issued during the year		-	-	-	2,163,281	2,163,281
Balance at 31 December 2007		21,508,685	(2,161,834)	-	4,865,948	24,212,799
Loss for the year		-	(812,936)	-	-	(812,936)
Shares issued during the year	16	7,133,809	-	-	-	7,133,809
Share capital raising cost		(406,069)	-	-	-	(406,069)
Transfer capital raising costs options not exercised		468,300	-	-	(468,300)	-
Transfers options not exercised		1,197,725	-	-	(1,197,725)	-
Transfers from retained earnings *		-	1,617,650	-	(1,617,650)	-
Transfers to intercompany account *		-	-	-	(2,165,049)	(2,165,049)
Options issued during the year		-	-	-	1,028,127	1,028,127
Balance at 31 December 2008		**29,902,450**	**(1,357,120)**	**-**	**445,351**	**28,990,681**

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

The accompanying notes form part of these financial statements

Financials

CASH FLOW STATEMENT
FOR YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,560,196	1,442,193	-	-
Interest received		327,439	133,950	327,466	133,950
Payments to suppliers and employees		(2,198,007)	(3,353,468)	(1,237,944)	(511,760)
Net cash provided by (used in) operating activities	21(a)	689,628	(1,777,325)	(910,478)	(377,810)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of working interest		860,007	-	-	-
Purchase of property, plant and equipment		(24,896)	(1,499)	(7,109)	(1,499)
Purchase of equity accounted investments		(2,663,310)	(3,196,167)	-	-
Payment for working interest		(4,632,798)	(4,411,077)	-	-
Net cash provided by (used in) investing activities		(6,460,997)	(7,608,743)	(7,109)	(1,499)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares (net of capital raising costs)		6,804,372	6,455,952	6,804,372	6,455,952
Loans Advanced		-	-	(4,809,306)	(8,646,981)
Net cash provided by (used in) financing activities		6,804,372	6,455,952	1,995,066	(2,191,029)
Net increase in cash held		1,003,003	(2,930,116)	1,077,479	(2,570,338)
Cash at beginning of financial year		1,854,713	4,784,829	1,746,107	4,316,445
Effect of exchange rate movement		76,209	-	-	-
Cash at end of financial year	8	2,963,925	1,854,713	2,823,586	1,746,107

The accompanying notes form part of these financial statements

Financials

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Preparation

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

Accounting Policies

(a) Principles of Consolidation

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

A list of controlled entities is contained in Note 11 to the financial statements.

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

(b) Income Tax

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

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

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

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

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

Financials

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

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

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

(c) Property, Plant and Equipment

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

Plant and equipment

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

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

Depreciation

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

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

Class of Fixed Asset	**Depreciation Rate**
Office Equipment	25%

Office Equipment

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.

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

Financials

(d) Exploration and Development Expenditure

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

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

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

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

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

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

(e) Leases

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

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

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

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

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

(f) Financial Instruments

Recognition and Initial Measurement

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

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

Financials

Derecognition

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

Classification and Subsequent Measurement

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

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

ii. *Loans and receivables*

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

iii. *Held-to-maturity investments*

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

iv. *Available-for-sale financial assets*

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

v. *Financial Liabilities*

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

Fair value

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

Impairment

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

Financials

(g) Impairment of Assets

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

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

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

(h) Investments in Associates

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

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

Exchange differences arising on translation of foreign operations are transferred directly to the group'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.

(j) Employee Benefits

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

Financials

Equity-settled compensation

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

(k) Provisions

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

(l) Cash and Cash Equivalents

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

(m) Revenue and Other Income

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

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

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

Goods and Services Tax (GST)

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

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

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

Comparative Figures

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

Capital Raising Costs

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

Critical Accounting Estimates and Judgments

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

Financials

Key Estimates — Impairment

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

Critical Accounting Estimates and Judgments

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

Key Estimates — Impairment

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

Key Judgments — Provision for Impairment of Receivables

No key judgements were made during the year.

NOTE 2: REVENUE

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Sales Revenue					
— Oil and gas revenue		2,886,365	1,564,346	-	-
Total Sales Revenue		2,886,365	1,564,346	-	-
Other Revenue					
— Interest from other persons		327,466	133,950	327,466	133,950
— Other revenue		-	-	482,046	539,628
Total Other Revenue		327,466	133,950	809,512	673,578
Total Sales Revenue and Other Revenue		3,213,831	1,698,296	809,512	673,578

NOTE 3: LOSS FOR THE YEAR

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Expenses					
Production costs – oil and gas		607,833	392,819	-	-
Depreciation and amortisation		5,384	3,253	2,965	3,253
Depletion of working interest		1,083,514	647,672	-	-
Capitalised exploration expenditure write-off		954,744	-	-	-
Total Depreciation, amortisation and write-offs		2,043,642	650,925	2,965	3,253

Financials

NOTE 4: INCOME TAX EXPENSE

		Note	Consolidated Group		Parent Entity	
			2008	2007	2008	2007
			$	$	$	$
a.	The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:					
	Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%)					
	— consolidated group		(746,704)	(1,008,591)		
	— parent entity				(243,881)	(398,685)
	Add:					
	Tax effect of:					
	— other non-allowable items		18,657	56,840	14,390	53,599
	— Effect of current year tax losses derecognised		1,001,002	488,240	259,851	234,255
	— share options expensed during year		294,248	615,515	149,431	258,360
			567,203	152,004	179,791	147,499
	Less:					
	Tax effect of:					
	— tax deductible equity raising costs		135,601	124,894	135,601	124,894
	— tax deductible formation costs		-	-	-	-
	— Other tax deductible items		431,602	27,110	44,190	22,605
	Income tax attributable to entity		-	-	-	-
	The applicable weighted average effective tax rates are as follows:		0%	0%	0%	0%
b.	Deferred tax assets not brought to account:					
	- Temporary differences		357,643	400,183	357,643	381,098
	- Tax losses		1,894,127	815,632	674,353	327,392
			2,251,770	1,215,815	1,031,996	708,490

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NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Person	Position
Executive Directors	
Justin Pettett	Managing Director and Chief Executive Officer since 1 December 2005
Ryan Messer	Chief Operations Officer since 1 December 2005
Non Executive Directors	
John Dickinson	Director appointed 1 December 2005; Former Chairman and appointed Vice-Chairman 29 January 2008; resigned on 1 June 2008
Ananda Kathiravelu	Director since 1 December 2005
Philip Judge	Appointed Director on 25 September 2005; resigned on 29 January 2008
George Lloyd	Appointed Director and Chairman on 29 January 2008

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

b. Related Party Transaction – Key Management Personnel

Management consulting fees totalling $90,000 (2007: $Nil) were paid to an entity of which Mr J. Pettett is a beneficial shareholder and director and amounts totalling $44,199 (2007:$24,933) were paid to an associate of Mr J Pettett for accounting related services.

Amounts totalling $20,651 (2007: $19,771) were paid to an associate of Mr Messer for administration related services.

Directorship fees have been paid to an entity of which Mr G Lloyd is a beneficiary totalling $114,583 (2007: $Nil).

Consulting fees totalling $52,424 (2007: $Nil) were paid to John Dickinson subsequent to his resignation as a Director.

c. Options and Rights Holdings

(i) Number of Options Held by Key Management Personnel

2008	Balance 1.1.2008	Granted as Compensation	Exercised	Net Change Other*	Balance 31.12.2008	Vested during the year	Vested and Exercisable 31.12.2008	Total Unexercisable 31.12.2008
Justin Pettett	4,500,000	-	-	(3,900,000)	600,000	-	600,000	-
Ryan Messer	3,450,000	-	-	(2,691,000)	759,000	-	759,000	-
John Dickinson	3,450,000	-	-	(2,691,000)	759,000	-	759,000	-
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Phillip Judge	150,000	-	-	(150,000)	-	-	-	-
George Lloyd	-	500,000	-	-	500,000	500,000	500,000	-
Total	11,550,000	500,000	-	(9,432,000)	2,618,000	500,000	2,618,000	-

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2007	Balance 1.1.2007	Granted as Compensation	Exercised	Net Change Other*	Balance 31.12.2007	Vested during the year	Vested and Exercisable 31.12.2007	Total Unexercisable 31.12.2007
Justin Pettett	5,000,000	-	(500,000)	-	4,500,000	1,100,000	600,000	-
Ryan Messer	3,450,000	-	-	-	3,450,000	759,000	759,000	-
John Dickinson	3,450,000	-	-	-	3,450,000	759,000	759,000	-
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Phillip Judge	-	150,000	-	-	150,000	150,000	150,000	-
George Lloyd	-	-	-	-	-	-	-	-
Total	11,900,000	150,000	(500,000)	-	11,550,000	2,768,000	2,268,000	-

(ii) Number of Rights Held by Key Management Personnel

2008	Balance 1.1.2008	Granted as Compensation	Exercised*	Net Change Other*	Balance 31.12.2008	Vested 31.12.2008	Exercisable 31.12.2008	Total Unexercisable 31.12.2008
Justin Pettett	2,000,000	-	-	(2,000,000)	-	-	-	-
Ryan Messer	1,380,000	-	-	(1,380,000)	-	-	-	-
John Dickinson	1,380,000	-	-	(1,380,000)	-	-	-	-
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Phillip Judge	-	-	-	-	-	-	-	-
George Lloyd	-	-	-	-	-	-	-	-
Total	4,760,000	-	-	(4,760,000)	-	-	-	-

2007	Balance 1.1.2007	Granted as Compensation	Exercised*	Net Change Other*	Balance 31.12.2007	Vested 31.12.2007	Exercisable 31.12.2007	Total Unexercisable 31.12.2007
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	-	-	-	-	-	-	-	-
Phillip Judge	-	-	-	-	-	-	-	-
George Lloyd	-	-	-	-	-	-	-	-
Total	4,760,000	-	-	-	4,760,000	-	-	4,760,000

*The Net Change Other reflected above includes those options and rights that have been voluntarily relinquished or forfeited by holders during the year under review.

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NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

d. Shareholdings

2008	Balance 1.1.2008	Received as Compensation	Options Exercised	Net Change Other *	Balance 31.12.2008
Justin Pettett	2,315,000	-	-	500,000	2,815,000
Ryan Messer	1,700,000	-	-	206,925	1,906,925
John Dickinson	1,700,000	-	-	-	1,700,000
Ananda Kathiravelu	4,727,500	-	-	(4,652,500)	75,000
Phillip Judge	4,565,163	-	-	-	4,565,163
George Lloyd	-	-	-	1,350,000	1,350,000
Total	15,007,663	-	-	(2,595,575)	12,412,088

2007	Balance 1.1.2007	Received as Compensation	Options Exercised	Net Change Other *	Balance 31.12.2007
Justin Pettett	1,795,000	-	500,000	20,000	2,315,000
Ryan Messer	1,700,000	-	-	-	1,700,000
John Dickinson	1,700,000	-	-	-	1,700,000
Ananda Kathiravelu	4,727,500	-	-	-	4,727,500
Phillip Judge	4,514,163	-	-	51,000	4,565,163
George Lloyd	-	-	-	-	-
Total	14,436,663	-	500,000	71,000	15,007,663

* Net Change Other refers to shares purchased or sold during the financial year.

e. 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 and 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 Pryme shares are issued and quoted on the ASX. The options cannot be transferred and will not be quoted on the ASX.

The terms and conditions of the entitlements are as follows:

Entitlement Date	No. of Options	Vesting Date	Vesting Conditions	Expiry Date/ Date of Relinquishment*	Original 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	26.06.08*	3 years	$0.20
31.07.06	4,165,000	Up to 30.06.09	Note c	26.06.08*	3 years	$0.20

Note a: These options vested during the 2007 financial year upon Pryme increasing annual net operating income in LaSalle Parish Project by 25% (to A$1,250,000 annually calculated monthly) within 12 months from the date of listing Pryme.

Note b: The options were to be granted upon the successful conclusion of the 3D data acquisition (receipt of field tapes) the evaluation thereof and the preparation from the 3D data of at least 10 drilling prospects in the Couth 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.

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

*As announced to the ASX on 26 June 2008, Messrs Dickinson, Pettett and Messer advised the Board that they had voluntarily relinquished all remaining options under the DIOP.

In addition to the above options, upon shareholder approval at the Annual General Meeting held on 5 March 2008, Mr George Lloyd was issued 500,000 options. This was a unique award to Mr Lloyd in anticipation of his contribution as the incoming Chairman of the Company. These options are exercisable at 40 cents each on or before 31 December 2009.

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

	2008		2007	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding at the beginning of the year	11,400,000	$0.20	11,900,000	$0.20
Granted	500,000	$0.40	-	-
Forfeited	(9,282,000)	$0.20	-	-
Exercised	-	-	500,000	$0.20
Outstanding at year-end	2,618,000	$0.24	11,400,000	$0.20
Exercisable at year-end	2,618,000	$0.24	2,768,000	$0.20

The options outstanding at 31 December 2008 have a weighted average exercise price of $0.24 and a weighted average remaining contractual life of 0.6 years

Directors Share Incentive Plan

Shareholders approved the introduction of the Directors' Incentive Share at the 20 July 2006 General Meeting. During the 2008 financial year, all entitlements under the DSIP were voluntarily relinquished as follows:

	2008		2007	
	Number of Rights	**Weighted Average Exercise Price**	**Number of Rights**	**Weighted Average Exercise Price**
Outstanding at the beginning of the year	4,760,000	n/a	-	n/a
Granted	-	n/a	4,760,000	n/a
Forfeited	(4,760,000)	n/a	-	n/a
Exercised	-	n/a	-	n/a
Outstanding at year-end	-	n/a	4,760,000	n/a
Exercisable at year-end	-	n/a	-	n/a

During the year, no rights vested.

Payment for Leasing Costs

On 9 July 2008, 101,603 shares were issued to Mr. Larry Gilbert Hatcher as part consideration for a mineral lease in the Up-Dip Tuscaloosa Project. The shares are ordinary fully paid shares issued in settlement of leasing costs of $23,369 payable in relation to the Oil, Gas and Mineral Lease of specified acreage in the East Baton Rouge Parish. The number of shares issued was determined with reference to the closing price of shares ($0.23) on the day of issue.

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NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	84,498	60,600	84,498	60,600
— taxation services	4,750	32,700	4,750	32,700
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	102,718	60,677	-	-

NOTE 7: EARNINGS PER SHARE

	Consolidated Group 2008 $	Consolidated Group 2007 $
a. Reconciliation of earnings to profit or loss		
Loss	(2,489,014)	(3,361,971)
Earnings used to calculate basic EPS	(2,489,014)	(3,361,971)
	No.	**No.**
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	106,359,384	92,124,977
Weighted average number of options outstanding	26,730,813	51,962,500
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	133,090,197	144,087,477

NOTE 8: CASH AND CASH EQUIVALENTS

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash at bank and in hand		212,026	224,607	71,687	116,001
Short-term bank deposits		2,751,899	1,630,106	2,751,899	1,630,106
		2,963,925	1,854,713	2,823,586	1,746,107

The effective interest rate on short-term bank deposits was 6.4% (2007: 6.6%).

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:

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash and cash equivalents	2,963,925	1,854,713	2,823,586	1,746,107
	2,963,925	1,854,713	2,823,586	1,746,107

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NOTE 9: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
CURRENT					
Trade receivables		596,300	214,478	2,861	-
Provision for impairment of receivables		-	-	-	-
		596,300	214,478	2,861	-
Other receivables		-	14,178	-	-
Amounts receivable from:					
— key management personnel		30,375	100,000	-	100,000
— GST receivable		16,800	21,723	16,800	21,723
		643,475	350,379	19,661	121,723
NON-CURRENT					
Amounts receivable from:					
— wholly-owned entities		-	-	26,204,219	22,526,696
		-	-	26,204,219	22,526,696

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

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NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Associated companies	10(a)	10,369,973	6,308,229	-	-
		10,369,973	6,308,229	-	-

Interests are held in the following associated unincorporated companies

Name	Principal Activities	Country of Incorporation	Ownership Interest 2008 %	Ownership Interest 2007 %	Carry amount of investment 2008 $	Carry amount of investment 2007 $
Unlisted:						
Turner Bayou, LLC	Oil and Gas Exploration and Drilling	United States of America	80.80	80.80	7,383,237	5,784,096
Avoyelles Energy, LLC	Oil and Gas Exploration and Drilling	United States of America	52.00	52.00	2,986,736	524,133
					10,369,973	6,308,229

		Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
a.	**Movements During the Year in Equity Accounted Investment in Associated Companies**					
	Balance at beginning of the financial year		6,308,229	3,130,786	-	-
	Adjustment for foreign currency movement		1,670,327	-		
Add:	New investments during the year		2,409,312	3,196,167	-	-
	Share of associated company's loss after income tax		(17,895)	(18,724)	-	-
	Balance at end of the financial year		10,369,973	6,308,229	-	-
b.	**Equity accounted profits of associates are broken down as follows:**					
	Share of associate's loss before income tax expense		(17,895)	(18,724)	-	-
	Share of associate's income tax expense		-	-	-	-
	Share of associate's loss after income tax		(17,895)	(18,724)	-	-

Financials

		Note	Consolidated Group		Parent Entity	
			2008	2007	2008	2007
			$	$	$	$
c.	**Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates**					
	Current assets		41,441	164,566	-	-
	Non-current assets		13,927,118	7,909,489	-	-
	Total assets		13,968,559	8,074,055	-	-
	Current liabilities		218,314	199,146	-	-
	Non-current liabilities		-	-	-	-
	Total liabilities		218,314	199,146	-	-
	Net assets		13,750,245	7,874,909	-	-
	Revenues		-	-	-	-
	Loss after income tax of associates		29,909	35,298	-	-

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

NOTE 11: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%)*	
		2008	2007
Subsidiaries of Pryme Oil and Gas Limited Listed Public Ltd:			
Pryme Oil and Gas Inc	US	100%	100%
- Pryme Energy LLC (a)	US	100%	100%
- Trident Minerals LLC (b)	US	100%	-
- Pryme Royalty Holdings LLC (b)	US	100%	-
- Pryme Mineral Holdings LLC (b)	US	100%	-

** Percentage of voting power is in proportion to ownership*

a. In April 2007 the parent entity established a subsidiary, Pryme Energy Inc., with an initial investment of US$1. During the financial year, ownership of this entity was transferred to Pryme Oil and Gas Inc.

b. New subsidiaries were established during the 2008 financial year as follows: Trident Minerals LLC (29 February 2008), Pryme Royalty Holdings LLC (20 May 2008), Pryme Mineral Holdings LLC (20 May 2008).

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NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
PLANT AND EQUIPMENT					
Office Equipment:					
At cost		36,626	9,262	16,371	9,262
Accumulated depreciation		(8,869)	(3,436)	(6,401)	(3,436)
		27,757	5,826	9,970	5,826

a. Movements in Carrying Amounts

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

	Office Equipment	Total
	$	$
Consolidated Group:		
Balance at 1 January 2007	6,503	6,503
Additions	1,499	1,499
Disposals	-	-
Depreciation expense	(2,176)	(2,176)
Balance at 31 December 2007	5,826	5,826
Additions	27,365	27,365
Disposals	-	-
Depreciation expense	(5,434)	(5,434)
Balance at 31 December 2008	27,757	27,757
Parent Entity:		
Balance at 1 January 2007	6,503	6,503
Additions	1,499	1,499
Disposals	-	-
Depreciation expense	(2,176)	(2,176)
Balance at 31 December 2007	5,826	5,826
Additions	7,109	7,109
Disposals	-	-
Depreciation expense	(2,965)	(2,965)
Balance at 31 December 2008	9,970	9,970

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NOTE 13: INTANGIBLE ASSETS

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Formation costs				
Cost	1,077	1,077	1,077	1,077
Accumulated amortisation	(1,077)	(1,077)	(1,077)	(1,077)
Net carrying value	-	-	-	-

NOTE 14 WORKING INTEREST

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Exploration expenditure capitalised				
- Exploration and evaluation phases	3,906,396	2,143,607	-	-
- Less exploration costs written off	(954,744)	-	-	-
Production phase	12,831,629	7,842,108	-	-
Accumulated depletion	(2,299,625)	(647,671)	-	-
Intangible exploration costs capitalised*	2,464,182	1,924,392	-	-
Total Exploration Expenditure	15,947,838	11,262,436	-	-

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

NOTE 15: TRADE AND OTHER PAYABLES

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
Current					
Other payables and accrued expenses		393,227	1,115,634	66,755	187,669

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NOTE 16: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
111,056,732 (2007: 89,504,029) fully paid ordinary shares	31,634,885	23,303,352	31,634,885	23,303,352
Capital raising costs	(1,732,435)	(1,794,667)	(1,732,435)	(1,794,667)
	29,902,450	21,508,685	29,902,450	21,508,685

			Consolidated Group		Parent Entity	
			2008	2007	2008	2007
			No.	No.	No.	No.
a.	**Ordinary shares**					
	At the beginning of reporting period		89,504,029	70,272,363	89,504,029	70,272,363
	Shares issued during the year					
	—	27 April 2007		6,666,666		6,666,666
	—	22 May 2007		62,500		62,500
	—	30 July 2007		50,000		50,000
	—	15 October 2007		200,000		200,000
	—	22 October 2007		11,562,500		11,562,500
	—	7 November 2007		200,000		200,000
	—	7 December 2007		500,000		500,000
	—	24 January 2008	75,000		75,000	
	—	6 March 2008	9,528,577		9,528,577	
	—	6 March 2008	8,571,423		8,571,423	
	—	6 March 2008	700,000		700,000	
	—	2 July 2008	2,575,000		2,575,000	
	—	3 July 2008	1,100		1,100	
	—	9 July 2008	101,603		101,603	
	Shares lapsed during the year					
	—	1 January 2007		(10,000)		(10,000)
	At reporting date		111,056,732	89,504,029	111,056,732	89,504,029

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

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b. **Options**

	Consolidated Group 2008	Consolidated Group 2007	Parent Entity 2008	Parent Entity 2007
20 cent option issued				
At the beginning of the period	5,943,000	4,475,000	5,943,000	4,475,000
20 April 2007		2,618,000		2,618,000
Less:				
20 cent options exercised/lapsed#				
28 February 2007		(250,000)		(250,000)
15 October 2007		(200,000)		(200,000)
7 November 2007		(200,000)		(200,000)
7 December 2007		(500,000)		(500,000)
2 July 2008	(2,575,000)		(2,575,000)	
2 July 2008	(75,000)		(75,000)	
2 July 2008	(1,175,000)		(1,175,000)	
Total 20 cent options	2,118,000	5,943,000	2,118,000	5,943,000
40 cent options issued				
At the beginning of the period	41,487,374	36,354,502	41,487,374	36,354,502
- 28 February 2007		(461)		(461)
- 27 April 2007		4,083,333		4,083,333
- 22 May 2007		150,000		150,000
- 9 July 2007		900,000		900,000
- 5 March 2008	500,000		500,000	900,000
Less 40 cent options exercised/lapsed				
- 3 July 2008	(1,100)		(1,100)	
- 3 July 2008	(41,486,274)		(41,486,274)	
Total 40 cent options	500,000	41,487,374	500,000	41,487,374
60 cent options issued				
At the beginning of the period				
- 9 July 2007		7,500,000		7,500,000
- 31 December 2007		(7,500,000)		(7,500,000)
Total 60 cent options	-	-	-	-

Financials

NOTE 17: RESERVES

a. **Foreign Currency Translation Reserve**
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

b. **Option Reserve**
The option reserve records items recognised as expenses on valuation of directors share options under the Directors Incentive Option Plan.

NOTE 18: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
a. **Operating Lease Commitments**					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		11,182	-	-	-
— between 12 months and 5 years		18,640	-	-	-
— Greater than 5 years		-	-	-	-
		29,822	-	-	-
c. **Capital Expenditure Commitments contracted for**					
Expenditure on working interest		213,101	379,334	-	-
		213,101	379,334	-	-
Payable:					
— not later than 12 months		213,101	379,334	-	-
— between 12 months and 5 years		-	-	-	-
— greater than 5 years		-	-	-	-
		213,101	379,334	-	-

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2008 (2007: Nil)

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NOTE 20: SEGMENT REPORTING

Primary Reporting — Geographical Segments

	Australia		United States of America		Eliminations		Total	
	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $
Income	809,512	673,578	2,886,365	1,564,346	(482,046)	(539,628)	3,213,831	1,698,296
Depletion, depreciation and exploration expenditure written off	2,966	3,253	2,040,676	647,672	-	-	2,043,641	650,925
Segment result	(812,936)	(1,328,951)	8,734,884	(3,867,933)	(10,410,962)	1,834,931	(2,489,014)	(3,361,971)
Assets	29,057,436	24,400,466	27,160,721	17,908,397	(26,204,219)	(22,526,810)	30,013,938	19,781,583
Liabilities	66,755	187,667	26,530,548	23,156,939	(26,204,076)	(22,229,597)	393,227	1,115,634

Primary Reporting — Business Segments

The Consolidated group operates predominantly in the exploration and development for production of oil and gas and is therefore considered to be under one business segment.

Accounting Policies

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

Exploration Expenditure Write-offs

Expenditure previously capitalised in relation to two projects amounting to $954,744 (2007: Nil) relating to the United States of America Segment was recognised as an expense for the year ended 31 December 2008.

Financials

NOTE 21: CASH FLOW INFORMATION

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
a. **Reconciliation of Cash Flow from Operations with Profit after Income Tax**				
Loss after income tax	(2,489,014)	(3,361,971)	(812,936)	(1,328,950)
Non-cash flows in profit				
Depreciation, depletion and amortisation	1,088,897	650,924	2,965	3,253
Share options expensed	948,650	2,049,656	498,102	861,200
Intercompany fees			(482,046)	
Write-off of capitalised expenditure	954,744			
Movement in foreign currency reserve	1,537,794	(1,688,443)		
Share of associated companies net loss after income tax and dividends	17,895	18,724		
Changes in assets and liabilities				
(Increase)/decrease in trade and term receivables	(621,862)	(100,689)	4,223	(21,723)
(Increase)/decrease in prepayments	(25,070)	(21,464)	(2,861)	
Increase/(decrease) in trade payables and accruals	(722,406)	675,938	(117,925)	108,410
Cashflow from operations	689,628	(1,777,325)	(910,478)	(377,810)

b. **Credit Standby Arrangements with Banks**

There are no credit or standby arrangements with financiers as at 31 December 2008 (2007: Nil)

NOTE 22: EVENTS AFTER THE BALANCE SHEET DATE

As announced to the ASX on 6 February 2009, Pryme has taken a 25% working interest (18.75%- 20% net revenue interest) in the Four Rivers Project.

The financial report was authorised for issue on 26 February 2009 by a committee of Directors under Board delegated authority.

Financials

NOTE 23: RELATED PARTY TRANSACTIONS

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.					
Transactions with related parties:					
Key Management Personnel	5(b)	321,857	44,704	248,782	24,933
The working interest in one of Pryme's exploration projects is held via an entity of which John Dickinson is the sole director. Pryme holds an option over 100% of the shares in this entity.		292,865	-	-	-

NOTE 24: FINANCIAL RISK MANAGEMENT

a. **Financial Risk Management Policies**

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

i. Treasury Risk Management

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

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

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

ii. Financial Risk Exposures and Management

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

Interest Rate Risk

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

Foreign currency risk

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

Liquidity risk

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

Financials

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

Credit risk

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

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

The group manages credit risk by actively assessing the rating quality and liquidity of counter parties including:

— only utilising banks and financial institutions with an 'A' rating;

— all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and

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

Price risk

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

b. **Financial Instruments composition and maturity analysis.**

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

			Fixed Interest Rate			
	Average Interest Rate	**Variable Interest Rate**	**Less than 1 year**	**1 to 5 years**	**Non Interest Bearing**	**Total**
2008		**$**	**$**	**$**	**$**	**$**
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	7.50%	2,963,925				2,963,925
Receivables	-				643,475	643,475
Financial Liabilities:						
Trade and sundry payables	-				(393,227)	(393,227)
Total		2,963,925			250,248	3,214,173
PARENT						
Financial Assets:						
Cash and cash equivalents	7.50%	2,823,586				2,823,586
Receivables	-				19,661	19,661
Financial Liabilities:						
Trade and sundry payables	-				(66,755)	(66,755)
Total		2,823,586			(47,094)	2,776,492

Financials

2007	Average Interest Rate	Variable Interest Rate $	Fixed Interest Rate Less than 1 year $	1 to 5 years $	Non Interest Bearing $	Total $
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	6.60%	1,854,713	-	-		1,854,713
Receivables	-	-	-	-	350,379	350,379
Financial Liabilities:		-	-	-		
Trade and sundry payables	-	-	-	-	(1,115,634)	(1,115,634)
Total		1,854,713	-	-	(765,255)	1,089,458
PARENT						
Financial Assets:						
Cash and cash equivalents	6.60%	1,746,107	-	-	-	1,746,107
Receivables	-	-	-	-	121,723	121,723
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(187,667)	(187,667)
Total		1,746,107	-	-	(65,944)	1,680,163

c. **Net Fair Values**

The net fair values of:

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

— Other assets and other liabilities approximate their carrying value.

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

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

d. **Sensitivity Analysis**

Interest Rate Risk, Foreign Currency Risk and Price Risk

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

Financials

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

Price Risk Sensitivity Analysis
At 31 December 2008, the effect on profit and equity as a result of changes in the price risk, with all other variables remaining constant would be as follows:

		Consolidated Group		Parent Entity	
		2008	**2007**	**2008**	**2007**
		$	**$**	**$**	**$**
Change in profit					
—	Increase in oil/gas price by 10%	**315,887**	**135,828**	-	-
—	Decrease in oil/gas price by10%	**(315,887)**	**(135,828)**	-	-

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

NOTE 25: COMPANY DETAILS

The registered office of the company is:

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

The principal places of business is:

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

Directors' Declaration

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

(a) the Financial Statements and Notes as set out on pages 36 to 66 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 2008 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 28 to 33 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

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

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 2008.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland

26 February 2009

Audit Report

MOORE STEPHENS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRYME OIL AND GAS LIMITED & CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying financial report of Pryme Oil and Gas Limited (the company) and Pryme Oil and Gas Limited & Controlled Entities (the consolidated entity), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: "Presentation of Financial Statements", that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors are also responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the *Corporations Regulations 2001*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

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

Moore Stephens (Brisbane) & Partners ABN 28 102 334 945
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Audit Report

MOORE STEPHENS

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors Pryme Oil and Gas Limited on 17 February 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

(a) the financial report of Pryme Oil and Gas Limited and Pryme Oil and Gas Limited & Controlled Entities is in accordance with 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 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

Moore Stephens

MOORE STEPHENS

M. J McDonald
Partner

Brisbane, 26th February 2009

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Shareholder Information
AS AT 17 FEBURARY 2009

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

1. Substantial shareholders

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

Fully paid Ordinary Shares

Name	Number	%
BPI Energy Pty Ltd	16,185,839	14.57
JR Energy Pty Ltd	15,531,281	13.98

2. Number of security holders and securities on issue

Pryme has issued the following securities:

(a) 111,056,732 fully paid ordinary shares held by 1,362 shareholders;
(b) 500,000 unlisted $0.40 options held by one option holder; and
(c) 2,118,000 unlisted $0.20 options held by three option holders.

3. Voting rights

Ordinary shares

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

Options

Option holders do not have any voting rights on the options held by them.

4. Distribution of security holders

(a) Quoted securities

Category	Fully paid Ordinary shares		
	Holders	Shares	%
1 - 1,000	60	43,934	0.04
1,001 - 5,000	292	881,544	0.79
5,001 - 10,000	313	2,742,601	2.47
10,001 - 100,000	578	20,356,882	18.33
100,001 and over	119	87,031,771	78.37
Total	1,362	111,056,732	100

(b) Unquoted securities

Category	$ 0.20 Options			$0.40 Options		
	Holders	Shares	%	Holders	Options	%
1 - 1,000	-	-	-	-	-	-
1,001 - 5,000	-	-	-	-	-	-
5,001 - 10,000	-	-	-	-	-	-
10,001 - 100,000	-	-	-	-	-	-
100,001 and over	3	2,118,000	100	1	500,000	100
Total	3	2,118,000	100	1	500,000	100

5. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 499. 9,804 shares comprise a marketable parcel at the Pryme closing share price of $ 0.051.

Shareholder Information
AS AT 17 FEBURARY 2009

6. Unquoted equity securities

(a) $0.20 options

2,118,000 unlisted $0.20 options have been issued to three option holders and remain unexercised. Details of holders of 20% or more of the $0.20 options are as follows:

Name	Number	%
John Dickinson	759,000	35.84
Sourcerock Investments LLC	759,000	35.84
Pettett Pty Ltd <Pettett Family A/C>	600,000	28.33

(b) $0.40 options

500,000 unlisted $0.40 options have been issued to 1 option holders and remain unexercised. Details of holders of 20% or more of the $0.40 options are as follows:

Name	Number	%
Jojeto Pty Ltd <Lloyd Super Account>	500,000	100

7. On market buy-back

There is no current on market buy-back.

8. Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

	Name	No. of shares	%
1	BPI Energy Pty Ltd	15,309,827	13.79
2	JR Energy Pty Ltd	14,352,673	12.92
3	RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	6,841,600	6.16
4	Anglo Energy Company Inc	4,437,613	4.00
5	Dreampt Pty Limited	3,150,000	2.84
6	Sourcerock Investments LLC	1,906,925	1.72
7	Craig Sceroler <Sceroler Properties A/C>	1,800,000	1.62
8	John Dickinson	1,700,000	1.53
9	James Stewart	1,650,000	1.49
10	Jojeto Pty Ltd <Lloyd Super A/C>	1,350,000	1.22
11	Peter Daniel Adams	1,135,000	1.02
12	Huxide Pty Limited	1,000,000	0.90
13	Geoffrey Alan Maynard & Alison Maynard	992,952	0.89
14	Ian James Rutherford & Clare Rutherford <IJR No. 1 Superfund A/C>	937,000	0.84
15	Big Pine Petroleum Inc	881,000	0.79
16	Michael Burnett <Superfund A/C>	869,566	0.78
17	Charles Raymond Turk Ellis & Susan Margaret Cornwell <The Turk Ellis Pty Ltd Super Fund A/C>	845,000	0.76
18	John Fox	811,050	0.73
19	ANZ Nominees Ltd <Cash Income A/C>	800,693	0.72
20	Equities and Securities Pty Limited <Number 1 A/C>	750,000	0.68
	Total	**61,520,899**	**55.40**

Notes

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Corporate Directory

Directors

Mr George Lloyd (Chairman)
Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Executive Director)
Mr Ananda Kathiravelu (Non-Executive Director)

Company Secretaries

Mrs Janine Rolfe
Ms Swapna Keskar

Registered and Principal Office

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Website: www.prymeoilandgas.com

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Share Registry

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NEW YORK NY 10286

Solicitors

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JP Morgan Chase Tower
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Houston, Texas 77002

Stock Exchanges

Australian Securities Exchange Limited (ASX)
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International OTCQX
Code: POGLY

Australian Company Number

117 387 354

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