


PRYME OIL AND GAS LIMITED
(ABN 75 117 387 354)
AND
CONTROLLED ENTITIES

APPENDIX 4E
DIRECTORS' REPORT
FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009

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

1. Company details and reporting period

Name of Entity and ABN	Pryme Oil and Gas Limited (ABN 75 117 387 354) and its subsidiaries (Consolidated Group)
Reporting Period	12 months to 31 December 2009
Previous Corresponding Period	12 months to 31 December 2008

2. Results for Announcement to the Market

	Up/Down	% Change	Year ended 31 December 2009 A$
Revenue from ordinary activities	Down	36	2,062,801
Profit/(loss) after tax attributable to the members	Down	72	(4,270,250)
Net Profit/(loss) for the period attributable to members	Down	72	(4,270,250)

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

Please refer to paragraph 14 (below)

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

3. Income statement with notes to the statement

Refer to page 18 of the 2009 Financial Statements and accompanying notes.

4. Balance sheet with notes to the statement

Refer to page 19 of the 2009 Financial Statements and accompanying notes.

5. Statement of cash flows with notes to the statement

Refer to page 21 of the 2009 Financial Statements and accompanying notes.

6. Dividends

No dividends were paid, recommended for payment or declared during the year in review.

7. Dividend/Distribution Reinvestment Plan (DRP)

The Consolidated Group does not have in operation a DRP.

8. Statement of retained earnings

Refer to page 20 of the 2009 Financial Statements.

9. Net Tangible assets (NTA) per security

	2009 A$	2008 A$
NTA per security	0.15	0.27

10. Entities over which control has been gained or lost during the period

Refer to page 37 of the 2009 Financial Statements

11. Associates and joint venture entities

Refer to page 36 of the 2009 Financial Statements

12. Other significant information

Not applicable.

13. Accounting standards used for foreign entities

Not applicable.

14. Commentary on results for the period

The accumulated loss of $4,270,250 is 72% higher than the 2008 year loss, attributable primarily to lower oil and gas revenue ($923,998) as a result of lower commodity prices and the write off of unrecoverable exploration expenditure $2,889,917.

15. Status of Audit

The 2009 Financial Statements have been audited. The Independent Auditor's Report is set out on pages 50 - 51 of the 2009 Financial Statements

16. Dispute or qualifications if not yet audited

Not applicable

17. Dispute or qualifications if audited

Not applicable

Justin Pettett
Managing Director

26 February 2010

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 2009 and the Independent Audit Report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

1. Directors

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

(a) George Lloyd – Chairman

Independent Non–Executive Director (Appointed 29 January 2008)

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

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

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

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

(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) Gregory Short

Independent Non – Executive Director (Appointed 21 January 2010)

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

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

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

Mr Short is also a Non – Executive Director of ASX listed MEO Australia Limited since July 2008.

(e) Ananda Kathiravelu

Non–Executive Director (Appointed 1 December 2005, Resigned 14 October 2009)

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, at the time of resignation, held a directorship in the following ASX listed company:

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

2. Company Secretary

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

Janine Rolfe resigned as Company Secretary on 25 January 2010.

3. Principal Activities

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

4. Review of Operations and State of Affairs

A review of, and information about, the Consolidated Group's operations, including the results of those operations and changes in its state of affairs during the year together with the information about the financial position of the Consolidated Group appears in the 2009 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:

Directors' Report

- On 11 January, Pryme lodged its Oil and Gas Reserves Report as at 1 January 2010.
- Details of the contract entered into between Pryme and Justin Pettett, Chief Executive Officer and Managing Director were announced on 25 January 2010.

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 2009 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 2009.

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 agreed to issue 500,000 $0.15 options over unissued ordinary shares to Mr Gregory Short, subject to shareholder approval at the 2010 Annual General Meeting. Following Board approval and subject to shareholder approval at the 2010 Annual General Meeting, further grants of incentive securities over unissued ordinary shares are expected. Further details will be contained in the 2010 Notice of Annual General Meeting.

Unissued Shares Under Option

As at the date of this Report there are no unissued ordinary shares of Pryme under option. The following options expired during the 2009 year:

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**	

Unissued Shares to be Allocated upon Conversion of Performance Rights

As at the date of this Report, there are 1,106,854 unissued ordinary shares of Pryme that may be allocated upon conversion of Performance Rights. Subject to the tenure conditions being satisfied, the timing for vesting of the shares is as follows:

Vesting Date	Number of Shares
01 January 2011	553,427
01 January 2012	553,427
Total	**1,106,854**

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	18	18	2	2	2	2
Justin Pettett	18	18	2 (#)	2 (#)	n/a	n/a
Ryan Messer	18	17	2 (#)	2 (#)	n/a	n/a
Ananda Kathiravelu	14	13	2	2	2	2

\# 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 2009 are as follows:

Director	Ordinary Shares	Entitlement to Ordinary Shares[1]	American Depository Receipts
Justin Pettett	3,661,000	515,936[2]	
Ryan Messer	2,506,925	515,936[2]	1,110[3]
George Lloyd	3,080,000		

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

2 These shares are subject to additional vesting requirements as set out in the Remuneration Report.

3 Equivalent to 11,100 ordinary shares.

Other than as stated above in relation to awards under the Pryme Oil & Gas Long-Term 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 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 2009 or to the date of this Report.

Directors' 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 17 and forms a part of the Annual Financial Report for the year ended 31 December 2009.

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

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)
- Total Remuneration for Executive Directors includes Directors' Fees which are paid in addition to Fixed Remuneration and, for the purposes of calculation of incentive remuneration, do not comprise part of Fixed Remuneration.
- STI and LTI are the 'at risk' portions of remuneration.
- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis.
- LTI is delivered in an equity award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.
- The Board may also determine to pay a bonus in cash in circumstances of outstanding performance not otherwise appropriately rewarded.

Directors' Report

- 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 be reviewed and modified by the Board.

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

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

Fixed Remuneration

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

At-Risk Remuneration

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

STI

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

LTI

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

The LTI scheme for Pryme approved at the 2009 AGM provides for the grant of equity in the form of performance rights (PRs) which are subject to the achievement of a dual performance measure (for US residents Restricted Stock Units (RSU), which have similar value characteristics).

The at risk remuneration for 2009 (which comprises both short term incentives, payable in cash, and long term incentives payable in PRs or RSUs as the case may be) as a percentage of fixed remuneration (FR) is dependent on the achievement of specific hurdles, is as follows:

	Fixed Remuneration	At-Risk Remuneration	
	FR %	Short term Incentive % of FR	Long term Incentive % of FR
Managing Director & Chief Executive Officer	100	nil	50
Chief Operating Officer	100	nil	50
Other Executives	100	8	10

The hurdles under the 2009 Incentive Plan related to relative production growth and the attainment of a total shareholder return comparable with the energy sector (Performance Conditions). The performance conditions under the FY 2009 Incentive Plan were as follows:

Directors' Report

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

The Performance Conditions are measured in respect of the period 1 January 2009 to 31 December 2009 and are tested at 1 January 2010 (Base Date).

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

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

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

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

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 2009, $165,000 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 an award to Mr Lloyd in anticipation of his contribution as the incoming Chairman of the Company. These options were exercisable at $0.40 each on or before 31 December 2009. These options expired on 31 December 2009.

Since the end of the financial year, Pryme has agreed to issue 500,000 $0.15 options over unissued ordinary shares to Mr Gregory Short, subject to shareholder approval at the 2010 Annual General Meeting.

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.

Directors' Report

Relationship between Policy and Pryme's Performance

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

During 2008, the Remuneration & Nomination Committee (Committee) identified the need for revised at-risk remuneration arrangements and devised new arrangements which were considered and agreed by Shareholders at the 2009 Annual General Meeting. In formulating the scheme, the Committee considered the appropriate elements of incentive plan design and canvassed market practice. The Pryme Oil and Gas Limited Long Term Incentive Plan (Plan), is designed to put a portion of executive remuneration "at-risk" and provide reasonable levels of incentives to key executives to encourage and reward performance that adds value to the Company for all Shareholders.

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

- growth in production (represented by growth in annual sales per year of oil and gas) rewards achievement against Board approved targets/plan, converting opportunity into a revenue stream for the Company. The target is within management's influence, thereby focusing executives on Pryme's key business drivers; while
- growth in total shareholder return (TSR) component provides an additional challenging test (where reward is only delivered for strengthening Pryme's position comparable 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.

Anti-Hedging Policy

No Pryme personnel are 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	RELATED PARTY CONSULTING FEES	TOTAL	SUPER-ANNUATION	LONG TERM BENEFITS	OPTIONS	RIGHTS			
	$	$	$	$	$		$	$	$	%	%
Non-Executive Directors											
GEORGE LLOYD (CHAIRMAN)											
2009	-	-	125,000	125,000	**-**	-	-	-	125,000	**-**	-
2008	-	-	114,583	114,583	**-**	-	67,500	-	182,083	**-**	-
JOHN DICKINSON											
2009	-	-	-	-	-	-	-	-	-	-	-
2008 [2]	32,792	-	-	**32,792**	-	-	106,060	98,735	**237,587**	86	45
ANANDA KATHIRAVELU											
2009 [3]	-	-	40,000	**40,000**	-	-	-	-	**40,000**	-	-
2008	81,795	-	-	**81,795**	7,362	-	-	-	**89,157**	-	-
Executives											
JUSTIN PETTETT Managing Director											
2009	165,135	-	120,000	**285,135**	14,863	-	-	10,506	**310,504**	3	3
2008	296,535	-	90,000	**386,535**	25,388	-	223,000	207,600	**842,523**	51	25
RYAN MESSER Chief Operating Officer											
2009	160,690	-	106,813	**267,503**	-	-	-	10,506	**278,009**	4	4
2008	269,161	-	-	**269,161**	-	-	127,271	118,482	**514,914**	48	25
SANDRA GAFFNEY Group Financial Controller											
2009	129,600	-	-	**129,600**	11,664	-	-	1,527	**142,791**	**1**	1
2008 [4]	15,000	-	-	**15,000**	1,350	-	-	-	**16,350**		
TOTAL											
2009	**455,425**	**-**	**391,813**	**847,238**	**26,527**	**-**	**-**	**22,539**	**896,304**		
2008	**695,283**	**-**	**204,583**	**899,866**	**34,100**	**-**	**523,831**	**424,817**	**1,882,614**	-	-

[1] Total Directors' remuneration of $753,513 (2008: $1,866,264) includes $732,501 (2008: $917,616) which was paid in cash or cash equivalents and an amount of $21,012 (2008: $948,648) which is attributable to the expensing of rights granted pursuant to the Pryme Oil and Gas Long Term Incentive Plan in accordance with Australian Accounting Standard AASB2 – Share-based payments. AASB2 requires securities to be expensed over the performance period of the security, from the date of the grant and despite the fact that the vesting conditions related to continuity of tenure are yet to be attained.The 2008 comparative amounts relate to the previous Directors' Incentive Option Plan (DIOP) and Directors' Share Incentive Plan (DSIP). During the 2008 financial year, all unvested options and rights were relinquished by the directors. During the 2009 financial year, all remaining vested options expired. 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.

[2] Resigned 1 June 2008

[3] Resigned 14 October 2009

[4] Commenced 17 November 2008. The total cash salary paid includes an amount of $9,600 paid pursuant to the Short Term Incentive Plan.

Directors' Report

SHORT TERM INCENTIVE PLAN

During the financial year, the following short term incentive bonus was awarded as part of compensation:

Employee	Position	Short Term Incentive including superannuation (Cash)
Sandra Gaffney	Group Financial Controller	$10,464

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

The following table sets out the interests held in securities granted pursuant to the 2009 Long Term Incentive Plan ("LTIP"):

Name	Date of Grant	At 1 January 2009	Granted	Vested	Lapsed	At 31 December 2009	Date award vests	Market Price on Date of Grant
Justin Pettett	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2012	$0.059
Total			**515,936**			**515,936**		
Ryan Messer	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09	-	257,968	-	-	257,968	1 Jan 2012	$0.059
Total			**515,936**			**515,936**		
Sandra Gaffney	31 Dec 09	-	37,492	-	-	37,492	1 Jan 2011	$0.059
	31 Dec 09	-	37,491	-	-	37,491	1 Jan 2012	$0.059
Total			**74,983**			**74,983**		

The fair value of the Incentive Plan securities granted on 31 December 2009, estimated using a Black Scholes Merton model, was $0.059.

Estimated Value Range of Awards

The maximum possible value of awards yet to vest to be disclosed under the Corporations Act 2001 is not determinable as it is dependent on, and therefore fluctuates with, the share price of Pryme Oil and Gas Limited at a date that any award is exercised. An estimate of a maximum possible value of awards can be made using the highest share price during FY2009, which was $0.145 multiplied by the number of shares awarded for the scheme.

FAIR VALUE OF OPTIONS – FACTORS AND ASSUMPTIONS

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[1]	**30.06.09**	**0.1784**	**0.20**	**0.730**	**75.0**	**5.695**	**0**
31.07.06	Tranche 2[1]	**30.06.09**	**0.1784**	**0.20**	**0.730**	**75.0**	**5.695**	**0**
31.07.06	Tranche 3[1]	**30.06.09**	**0.1784**	**0.20**	**0.730**	**75.0**	**5.695**	**0**
06.03.08	Chairman[2]	**31.12.09**	**0.1350**	**0.40**	**0.275**	**111.5**	**6.510**	**0**

Directors' Report

Shareholders approved the introduction of the Directors Incentive Option Plan at the 20 July 2006 General Meeting. On 30 June 2009, the remaining 2,118,000 options under Tranche 1 of the DIOP expired. The options in respect of Tranche 2 and 3, originally exercisable until 30 June 2009, were voluntarily relinquished by the directors during 2008.

At the Annual General Meeting held on 5 March 2008 shareholders approved the award of 500,000 options granted to Mr George Lloyd upon his appointment as Chairman of the company. These options, exercisable at $0.40 cents, expired on 31 December 2009.

Since the end of the financial year, Pryme has agreed to issue 500,000 $0.15 options over unissued ordinary shares to Mr Gregory Short, subject to shareholder approval at the 2010 Annual General Meeting.

MOVEMENT IN OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

During the reporting period, the following movements occurred in relation to entitlements to options over ordinary shares in Pryme that were previously granted to key management personnel as compensation:

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 2009
Executive Directors									
Justin Pettett	2009	600,000	515,936*	-	-	(600,000)	515,936	-	-
	2008	4,500,000	-	-	(3,900,000)	-	600,000	-	600,000
Ryan Messer	2009	759,000	515,936*	-		(759,000)	515,936	-	-
	2008	3,450,000	-	-	(2,691,000)		759,000	-	759,000
Non –Executive Directors									
John Dickinson	2009	759,000	-	-		(759,000)	-	-	-
	2008	3,450,000	-	-	-	(2,691,000)	759,000	-	759,000
Ananda Kathiravelu	2009	-	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-	-
George Lloyd	2009	500,000	-	-	-	(500,000)	-	-	-
	2008	-	500,000	-	-	-	500,000	500,000	500,000

* These Performance Rights/Restricted Stock units were granted on 4 February 2010 in respect of the performance period 1 January 2009 to 31 December 2009.

The initial entitlement to options arose on 31 July 2006. The directors voluntarily relinquished all unvested options during 2008. The remaining vested options, available to be exercised until 30 June 2009, expired at that date.

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

Directors' Report

Summary of Key Contracts Terms

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

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

Directors' Report

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 2010

Auditor's Independence Declaration

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

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

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 AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2009 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

M McDonald
Director

Date: [illegible] February 2010
Brisbane, Queensland

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Level 25, 71 Eagle Street, Brisbane, Queensland, 4000 Australia
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Chartered Accountants
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Financials

Pryme Oil and Gas Limited ABN 75 117 387 354 and Controlled Entities

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
Revenue	2	2,062,801	3,213,831	1,194,960	809,512
Accounting and Audit Fees		(165,620)	(303,245)	(98,652)	(120,936)
Depreciation and amortisation expenses and write offs	3	(3,917,720)	(2,043,642)	(5,698)	(2,965)
Directors Remuneration	5	(340,687)	(684,824)	(179,998)	(382,871)
Directors Remuneration – Share/Option Plan	5	(21,012)	(948,648)	(21,012)	(498,102)
Professional Consulting Fees	5	(502,478)	(454,965)	(354,104)	(277,284)
Employee benefits expense		(241,287)	(88,904)	(205,110)	(57,424)
Legal Expenses		(82,778)	(38,946)	(54,017)	(24,644)
Production Costs		(531,125)	(607,833)	-	-
Share Registry and Listing Costs		(46,486)	(36,864)	(46,486)	(36,864)
Travel and Accommodation Expenses		(141,444)	(199,686)	(112,228)	(128,494)
Other expenses		(323,141)	(277,393)	(97,381)	(92,864)
Share of net profits of associates and joint ventures		(19,273)	(17,895)	-	-
Loss before income tax	3	(4,270,250)	(2,489,014)	20,274	(812,936)
Income tax expense	4	-	-	-	-
Net Loss attributable to members of the parent entity		(4,270,250)	(2,489,014)	20,274	(812,936)
Overall Operations					
Basic earnings per share (cents per share)	7	(3.4)	(2.3)		
Diluted earnings per share (cents per share)	7	(3.3)	(1.9)		

The accompanying notes form part of these statements

Financials

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	5,454,607	2,963,925	5,346,220	2,823,586
Trade and other receivables	9	1,237,778	643,475	33,379	19,661
Other current assets		49,177	60,970	-	-
TOTAL CURRENT ASSETS		6,741,562	3,668,370	5,379,599	2,843,247
NON-CURRENT ASSETS					
Trade and other receivables	9	-	-	29,943,713	26,204,219
Investments accounted for using the equity method	10	8,623,033	10,369,973	-	-
Property, plant and equipment	13	442,901	27,757	9,151	9,970
Working Interest	14	10,552,905	15,947,838	-	-
Other non-current assets		-	-	-	-
TOTAL NON-CURRENT ASSETS		19,618,839	26,345,568	29,952,864	26,214,189
TOTAL ASSETS		26,360,401	30,013,938	35,332,463	29,057,436
CURRENT LIABILITIES					
Trade and other payables	15	182,243	393,227	72,582	66,755
TOTAL CURRENT LIABILITIES		182,243	393,227	72,582	66,755
TOTAL LIABILITIES		182,243	393,227	72,582	66,755
NET ASSETS		26,178,158	29,620,711	35,259,881	28,990,681
EQUITY					
Issued capital	16	36,399,647	29,902,450	36,399,648	29,902,450
Reserves		(2,282,977)	3,831,874	22,539	445,351
Accumulated losses		(7,938,512)	(4,113,613)	(1,162,306)	(1,357,120)
TOTAL EQUITY		26,178,158	29,620,711	35,259,881	28,990,681

The accompanying notes form part of these statements

Financials

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2009

	Note	Ordinary Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Total
Consolidated Group						
Balance at 1 January 2008		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		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 borrowing 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**
Loss for the year		-	(4,270,250)	-	-	(4, 270,250)
Shares issued during the year		6,774,460	-	-	-	6,774,460
Share capital raising cost		(277,263)	-	-	-	(277,263)
Adjustments from translation of foreign controlled entities		-		(5,692,039)	-	(5,692,039)
Transfers from retained earnings		-	445,351	-	(445,351)	-
Options issued during the year		-	-	-	22,539	22,539
Balance at 31 December 2009		**36,399,647**	**(7,938,512)**	**(2,305,516)**	**22,539**	**26,178,158**
Parent Entity						
Balance at 1 January 2008		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		7,133,809	-	-	-	7,133,809
Share capital raising cost		(406,069)	-	-	-	(406,069)
Transfer borrowing 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**
Loss for the year		-	20,274	-	-	20,274
Shares issued during the year		6,774,460	-	-	-	6,774,460
Share capital raising cost		(277,262)	-	-	-	(277,262)
Transfers from retained earnings *		-	174,540	-	(174,540)	-
Transfers to intercompany account *		-	-	-	(270,811)	(270,811)
Options issued during the year		-	-	-	22,539	22,539
Balance at 31 December 2009		**36,399,648**	**(1,162,306)**	**-**	**22,539**	**35,259,881**

*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 statements

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CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,800,774	2,560,196	-	-
Interest received		87,307	327,439	87,307	327,466
Payments to suppliers and employees		(2,236,178)	(2,198,007)	(1,154,339)	(1,237,944)
Net cash provided by (used in) operating activities	21(a)	(348,097)	689,628	(1,067,032)	(910,478)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of working interest		-	860,007	-	-
Purchase of property, plant and equipment		(12,292)	(24,896)	(4,879)	(7,109)
Purchase of equity accounted investments		(310,346)	(2,663,310)	-	-
Payment for working interest		(2,319,729)	(4,632,798)	-	-
Net cash provided by (used in) investing activities		(2,642,367)	(6,460,997)	(4,879)	(7,109)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares (net of capital raising costs)		6,497,198	6,804,372	6,497,198	6,804,372
Loans Advanced		(985,977)	-	(2,902,653)	(4,809,306)
Net cash provided by (used in) financing activities		5,511,221	6,804,372	3,594,545	1,995,066
Net increase in cash held		2,520,757	1,033,003	2,522,634	1,077,479
Cash at beginning of financial year		2,963,925	1,854,713	2,823,586	1,746,107
Effect of exchange rate movement		(30,075)	76,209	-	-
Cash at end of financial year	8	5,454,607	2,963,925	5,346,220	2,823,586

The accompanying notes form part of these financial statements.

Financials

Notes to the Financial Statements for the Year Ended 31 December 2009

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.

Jointly Controlled Entities

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

(b) Income Tax

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

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

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

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

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

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

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

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

(c) Property, Plant and Equipment

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

Plant and equipment

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

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

Depreciation

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

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

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

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

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

(d) Exploration and Development Expenditure

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

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

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

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

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

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

(e) Leases

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

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

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

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

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

(f) Financial Instruments

Recognition and Initial Measurement

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

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

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

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity 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.

(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

Financials

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.

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

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vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(k) Provisions

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

(l) Cash and Cash Equivalents

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

(m) Revenue and Other Income

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

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

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

(n) Goods and Services Tax (GST)

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

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

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

(o) Comparative Figures

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

(p) Capital Raising Costs

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

Critical Accounting Estimates and Judgments

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

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.

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Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 2: REVENUE

	Note	Consolidated Group		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
Sales Revenue					
— Oil and gas revenue		1,962,367	2,886,365	-	-
Total Sales Revenue		1,962,367	2,886,365	-	-
Other Revenue					
— Interest from other persons		87,310	327,466	87,307	327,466
— Other revenue		13,124	-	1,107,653	482,046
Total Other Revenue		100,434	327,466	1,194,960	809,512
Total Sales Revenue and Other Revenue		2,062,801	3,213,831	1,194,960	809,512

NOTE 3: LOSS FOR THE YEAR

	Note	Consolidated Group		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
Expenses					
Production costs – oil and gas		531,125	607,833	-	-
Depreciation and amortisation		13,429	5,384	5,698	2,965
Depletion of working interest		1,014,374	1,083,514	-	-
Capitalised exploration expenditure write-off		2,889,917	954,744	-	-
Total Depreciation, amortisation and write-offs		3,917,720	2,043,642	5,698	2,965

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Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 4: INCOME TAX EXPENSE

	Note	Consolidated Group		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
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		(1,281,075)	(746,704)		
— parent entity				6,082	(243,881)
Add:					
Tax effect of:					
— other non-allowable items		24,163	18,657	18,684	14,390
— Effect of current year tax losses derecognised		1,770,954	1,001,002	135,099	259,851
— share options expensed during year		13,121	294,248	6,762	149,431
		527,163	567,203	166,627	179,791
Less:					
Tax effect of:					
— tax deductible equity raising costs		152,237	135,601	152,237	135,601
— tax deductible formation costs		-	-	-	-
— Other tax deductible items		374,926	431,602	14,390	44,190
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		293,769	357,643	293,769	357,643
- Tax losses		2,422,391	1,894,127	790,767	674,353
		2,716,160	2,251,770	1,084,536	1,031,996

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Notes to the Financial Statements for the Year Ended 31 December 2009

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	
Ananda Kathiravelu	Appointed Director on 1 December 2005; resigned on 14 October 2009
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 $120,000 (2008: $90,000) were paid to an entity of which Mr J Pettett is a beneficial shareholder and director and amounts totalling $47,130 (2008:$44,199) were paid to associates of Mr J Pettett for accounting and graphic design related services.

Management consulting fees totalling $106,813 (2008: Nil) were paid to an entity of which Mr R Messer is a beneficial shareholder and director and amounts totalling $22,189 (2008: $20,651) were paid to an associate of Mr Messer for administration related services.

Directorship fees totalling $125,000 (2008: $114,583) have been paid to an entity of which Mr G Lloyd is a beneficiary.

Directorship fees totalling $40,000 (2008: Nil) have been paid to an entity of which Mr A Kathiravelu is a beneficial shareholder and director.

c. Options and Rights Holdings

(i) **Number of Options Held by Key Management Personnel**

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

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Notes to the Financial Statements for the Year Ended 31 December 2009

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	-

(ii) **Number of Rights Held by Key Management Personnel**

2009	Balance 1.1.2009	Granted as Compensation	Exercised	Net Change Other*	Balance 31.12.2009	Vested 31.12.2009	Exercisable 31.12.2009	Total Unexercisable 31.12.2009
Justin Pettett	-	515,936	-	-	515,936		-	515,936
Ryan Messer	-	515,936	-	-	515,936		-	515,936
Ananda Kathiravelu	-	-	-	-	-	-	-	-
George Lloyd	-	-	-	-	-	-	-	-
Total		1,031,872	-	-	1,031,872	-	-	1,031,872

2008	Balance 1.1.2008	Granted as Compen-sation	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	-	-	-	-	-	-	-	-
George Lloyd	-	-	-	-	-	-	-	-
Total	4,760,000	-	-	(4,760,000)	-	-	-	-

*The Net Change Other reflected above includes those options and rights that were voluntarily relinquished or forfeited by holders during the 2008 year.

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Notes to the Financial Statements for the Year Ended 31 December 2009

d. Shareholdings

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

2008	Balance 1.1.2008	Received as Compensation	Options Exercised	Net Change Other *	Balance 31.12.2008
Justin Pettett	2,325,000	-	-	500,000	2,825,000
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	15,017,663	-	-	(2,595,575)	12,422,088

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

(e) Share based payments

Long Term Incentive Plan

Shareholders approved the introduction of the Pryme Oil and Gas Limited Long Term Incentive Plan ("LTIP") at the 8 April 2009 Annual General Meeting. Under the LTIP employees are granted securities upon satisfaction of performance conditions linked to Pryme's business plan and strategies. There are no dividend or voting rights attaching to the securities until such time as the vesting conditions related to tenure are satisfied at which point ordinary shares, which rank equally with all other Pryme shares, are issued and quoted on the ASX. The securities cannot be transferred and will not be quoted on the ASX.

The securities granted pursuant to the LTIP and related terms and conditions of the entitlements are as follows:

Name	Date of Grant	At 1 January 2009	Granted	Vested	Lapsed	At 31 December 2009	Date award vests	Market Price on Date of Grant
Justin Pettett	31 Dec 09		257,968	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09		257,968			257,968	1 Jan 2012	$0.059
Total			**515,936**	**-**	**-**	**515,936**		
Ryan Messer	31 Dec 09		257,968	-	-	257,968	1 Jan 2011	$0.059
	31 Dec 09		257,968			257,968	1 Jan 2012	$0.059
Total			**515,936**	**-**	**-**	**515,936**		
Sandra Gaffney	31 Dec 09		37,491	-	-	37,491	1 Jan 2011	$0.059
	31 Dec 09		37,491			37,491	1 Jan 2012	$0.059
Total			**74,982**	**-**	**-**	**74,982**		

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Notes to the Financial Statements for the Year Ended 31 December 2009

- The fair value of the Incentive Plan securities granted on 31 December 2009, estimated using a Black Scholes Merton model, was $0.059.
- Estimated Value Range of Awards
- The maximum possible value of awards yet to vest to be disclosed under the Australian Corporations Act 2001 is not determinable as it is dependent on, and therefore fluctuates with, the share price of Pryme Oil and Gas Limited at a date that any award is exercised. An estimate of a maximum possible value of awards can be made using the highest share price during FY2009, which was $0.145 multiplied by the number of shares awarded for the scheme.

Directors Incentive Option Plan (DIOP)

During the year ended 31 December 2009, all options remaining under the DIOP approved at the July 2006 General Meeting expired.

The terms and conditions of the DIOP were 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.

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.

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 with an exercise price of $0.40. This was a unique award to Mr Lloyd in anticipation of his contribution as the incoming Chairman of the Company. These options expired on 31 December 2009.

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

	2009		2008	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding at the beginning of the year	2,618,000	$0.24	11,400,000	$0.20
Granted	-	-	500,000	$0.40
Lapsed / Forfeited	(2,618,000)	$0.24	(9,282,000)	$0.20
Exercised	-	-	-	-
Outstanding at year-end	-		2,618,000	$0.24
Exercisable at year-end	-		2,618,000	$0.24

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Payment for Research Costs

On 22 October 2009, 350,000 shares were issued to RM Research Pty Ltd as consideration for the provision of a mandate to compile broker research and financial analysis and to assist with the distribution of such research on behalf of Pryme. The shares are ordinary fully paid shares issued in settlement of a research services invoice for $35,000. The shares were issued as part of the non-renounceable rights issue shortfall offered to shareholders in October 2009. The number of shares issued was determined using the same price and terms offered to shareholders under the non-renounceable rights issue.

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	79,615	84,498	79,615	84,498
— taxation services	8,070	4,750	8,070	4,750
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	-	102,718	-	-

NOTE 7: EARNINGS PER SHARE

		Consolidated Group	
		2009 $	2008 $
a.	Reconciliation of earnings to profit or loss		
	Loss	(4,270,250)	(2,489,014)
	Earnings used to calculate basic EPS	(4,270,250)	(2,489,014)
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	127,156,180	106,359,384
	Weighted average number of options outstanding	1,550,296	26,730,813
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	128,706,476	133,090,197

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Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 8: CASH AND CASH EQUIVALENTS

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Cash at bank and in hand		225,604	212,026	117,217	71,687
Short-term bank deposits		5,229,003	2,751,899	5,229,003	2,751,899
		5,454,607	2,963,925	5,346,220	2,823,586

The effective interest rate on short-term bank deposits was 3.2% (2008: 6.4%).

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:					
Cash and cash equivalents		5,454,607	2,963,925	5,346,220	2,823,586
		5,454,607	2,963,925	5,346,220	2,823,586

NOTE 9: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
CURRENT					
Trade receivables		1,204,399	596,300	-	2,861
Provision for impairment of receivables		-	-	-	-
		1,204,399	596,300	-	2,861
Other receivables		-	-	-	-
Amounts receivable from:					
— key management personnel		-	30,375	-	-
— GST receivable		33,379	16,800	33,379	16,800
		1,237,778	643,475	33,379	19,661
NON-CURRENT					
Amounts receivable from:					
— wholly-owned entities		-	-	29,943,713	26,204,219
		-	-	29,943,713	26,204,219

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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Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Associated companies	10a	8,623,033	10,369,973	-	-
		8,623,033	10,369,973	-	-

Interests are held in the following associated unincorporated companies

Name	Principal Activities	Country of Incorporation	Ownership Interest		Carry amount of investment	
			2009	2008	2009	2008
			%	%	$	$
Unlisted:						
Turner Bayou, LLC	Oil and Gas Exploration and Drilling	United States of America	80.80	80.80	5,776,156	7,383,237
Avoyelles Energy, LLC	Oil and Gas Exploration and Drilling	United States of America	52.00	52.00	2,846,877	2,986,736
					8,623,033	10,369,973

		Note	Consolidated Group		Parent Entity	
			2009	2008	2009	2008
			$	$	$	$
a.	**Movements During the Year in Equity Accounted Investment in Associated Companies**					
	Balance at beginning of the financial year		10,369,973	6,308,229	-	-
	Adjustment for foreign currency movement		(2,222,386)	1,670,327		
Add:	New investments during the year		494,719	2,409,312	-	-
	Share of associated company's loss after income tax		(19,273)	(17,895)	-	-
	Balance at end of the financial year		8,623,033	10,369,973	-	-
b.	**Equity accounted profit/(loss) of associates are broken down as follows:**					
	Share of associate's loss before income tax expense		(19,273)	(17,895)	-	-
	Share of associate's income tax expense		-	-	-	-
	Share of associate's loss after income tax		(19,273)	(17,895)	-	-

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Notes to the Financial Statements for the Year Ended 31 December 2009

c. **Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates**

Current assets	3,725	41,441	-	-
Non-current assets	11,651,353	13,927,118	-	-
Total assets	11,665,078	13,968,559	-	-
Current liabilities	99,233	218,314	-	-
Non-current liabilities	-	-	-	-
Total liabilities	99,233	218,314	-	-
Net assets	11,565,845	13,750,245	-	-
Revenues	-	-	-	-
Loss after income tax of associates	32,018	29,909	-	-

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

NOTE 11: CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest (%)*	
		2009	2008
Subsidiaries of Pryme Oil and Gas Limited Listed Public Ltd:			
Pryme Oil and Gas Inc	US	100%	100%
- Pryme Energy LLC	US	100%	100%
- Trident Minerals LLC	US	100%	100%
- Pryme Royalty Holdings LLC	US	100%	100%
- Pryme Mineral Holdings LLC	US	100%	100%

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

NOTE 12: INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

	Country of Incorporation	Principal Activity	Reporting Date	Ownership Interest (%)	
				2009	2008
Pryme Lake Exploration LLC	US	Oil Exploration	31 Dec	50%	-

During the year Pryme acquired a 50% interest in Pryme Lake Exploration LLC for the purpose of exploration and development of the Catahoula Lake project. The entity is subject to joint control under the relevant ownership and management agreements with the remaining 50% membership interest in the entity owned by a single member.

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Notes to the Financial Statements for the Year Ended 31 December 2009

	In Aggregate		Group Share	
	2009	2008	2009	2008
	$	$	$	$
Net Assets of Jointly Controlled Entities				
Current assets	46,684		23,342	
Non-current assets	1,785,388		892,694	
Current liabilities	23,501		11,752	
Non-current liabilities	-		-	
Net assets	1,808,571		904,284	
Revenues	-		-	
Profit/(Loss) after income tax	1,144		572	

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated Group		Parent Entity	
		2009	**2008**	**2009**	**2008**
		$	**$**	**$**	**$**
PLANT AND EQUIPMENT					
Office Equipment:					
At cost		45,423	36,626	21,250	16,371
Accumulated depreciation		(20,957)	(8,869)	(12,099)	(6,401)
		24,466	27,757	9,151	9,970
Drilling Equipment:					
At cost		418,435	-	-	-
Accumulated depreciation		-	-	-	-
		418,435	-	-	-
TOTAL					
At cost		463,858	36,626	21,250	16,371
Accumulated depreciation		(20,957)	(8,869)	(12,099)	(6,401)
		442,901	27,757	9,151	9,970

a. **Movements in Carrying Amounts**

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

	Office Equipment	**Drilling Equipment**	**Total**
	$	**$**	**$**
Consolidated Group:			
Balance at 1 January 2008	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
Foreign currency movement	(2,999)		(2,999)
Additions	13,137	418,435	431,572
Disposals	-		-
Depreciation expense	(13,429)		(13,429)
Balance at 31 December 2009	24,466	418,435	442,901

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Notes to the Financial Statements for the Year Ended 31 December 2009

Parent Entity:			
Balance at 1 January 2008	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
Additions	4,879	-	4,879
Disposals	-	-	-
Depreciation expense	(5,698)	-	(5,698)
Balance at 31 December 2009	9,151	-	9,151

NOTE 14 WORKING INTEREST

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Exploration expenditure capitalised				
- Exploration and evaluation phases	2,127,925	3,906,396	-	-
- Less exploration costs written off	(1,128,523)	(954,744)	-	-
Production phase	12,044,983	12,831,629	-	-
Accumulated depletion	(2,750,753)	(2,299,625)	-	-
Intangible exploration costs capitalised*	1,652,584	2,464,182	-	-
Less intangible costs written off	(1,393,311)	-	-	-
Total Exploration Expenditure	10,552,905	15,947,838	-	-

*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	
		2009	**2008**	**2009**	**2008**
		$	**$**	**$**	**$**
Current					
Other payables and accrued expenses		182,243	393,227	72,582	66,755

Financials

Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 16: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
178,801,337 (2008: 111,056,732) fully paid ordinary shares	38,409,345	31,634,885	38,409,345	31,634,885
Capital raising costs	(2,009,698)	(1,732,435)	(2,009,698)	(1,732,435)
	36,399,647	29,902,450	36,399,647	29,902,450

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	No.	No.	No.	No.
a. **Ordinary shares**				
At the beginning of reporting period	111,056,732	89,504,029	111,056,732	89,504,029
Shares issued during the year				
— 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
— 10 September 2009	16,658,509		16,658,509	
— 2 October 2009	21,725,948		21,725,948	
— 22 October 2009	29,360,148		29,360,148	
Shares lapsed during the year	-	-	-	-
At reporting date	178,801,337	111,056,732	178,801,337	111,056,732

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.

Financials

Notes to the Financial Statements for the Year Ended 31 December 2009

b. **Options**

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
20 cent option issued				
At the beginning of the period	2,118,000	5,943,000	2,118,000	5,943,000
Less:				
20 cent options exercised/lapsed#				
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)
30 June 2009	(2,118,000)		(2,118,000)	
Total 20 cent options	-	2,118,000	-	2,118,000
40 cent options issued				
At the beginning of the period	500,000	41,487,374	500,000	41,487,374
Add: 40 cent options issued				
- 5 March 2008		500,000		500,000
Less 40 cent options exercised/lapsed				
- 3 July 2008		(1,100)		(1,100)
- 3 July 2008		(41,486,274)		(41,486,274)
- 31 December 2009	(500,000)	-	(500,000)	
Total 40 cent options	-	500,000	-	500,000

NOTE 17: RESERVES

a. **Foreign Currency Translation Reserve**

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

b. **Option Reserve**

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

Financials

Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 18: CAPITAL AND LEASING COMMITMENTS

		Note	Consolidated Group		Parent Entity	
			2009 $	2008 $	2009 $	2008 $
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		8,855	11,182	-	-
	— between 12 months and 5 years		7,456	18,640	-	-
	— Greater than 5 years		-	-	-	-
			16,311	29,822	-	-
c.	**Capital Expenditure Commitments contracted for**					
	Expenditure on working interest		186,513	213,101	-	-
			186,513	213,101	-	-
	Payable:					
	— not later than 12 months		186,513	213,101	-	-
	— between 12 months and 5 years		-	-	-	-
	— greater than 5 years		-	-	-	-
			186,513	213,101	-	-

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2009 (2008: Nil)

Financials

Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 20: SEGMENT REPORTING

Primary Reporting — Geographical Segments

	Australia		United States of America		Eliminations		Total	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Income	1,194,960	809,512	1,975,493	2,886,365	(1,107,652)	(482,046)	2,062,801	3,213,831
Depletion, depreciation and exploration expenditure written off	5,698	2,966	3,912,022	2,040,676	-	-	3,917,720	2,043,642
Segment result	20,274	(812,936)	(10,545,450)	8,734,884	6,254,926	(10,410,962)	(4,270,250)	(2,489,014)
Assets	35,332,462	29,057,436	20,971,650	27,160,721	(29,943,711)	(26,204,219)	26,360,401	30,013,938
Liabilities	72,582	66,755	30,053,260	26,530,548	(29,943,599)	(26,204,076)	182,243	393,227

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

Exploration costs previously capitalised amounting to $2,889,917 (2008: $954,744) relating to the United States of America Segment was recognised as an expense for the year ended 31 December 2009.

Financials

Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 21: CASH FLOW INFORMATION

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
a. **Reconciliation of Cash Flow from Operations with Profit after Income Tax**				
Loss after income tax	(4,270,250)	(2,489,014)	20,274	(812,936)
Non-cash flows in profit				
Depreciation, depletion and amortisation	1,027,803	1,088,897	5,698	2,965
Share options expensed	22,539	948,650	22,539	498,102
Intercompany fees			(1,107,653)	(482,046)
Write-off of capitalised expenditure	2,889,917	954,744		
Movement in foreign currency reserve	(74,615)	1,537,794		
Share of associated companies net loss after income tax and dividends	19,273	17,895		
Changes in assets and liabilities				
(Increase)/decrease in trade and term receivables	73,912	(621,862)	(16,579)	4,223
(Increase)/decrease in prepayments	(5,007)	(25,070)	2,861	(2,861)
Increase/(decrease) in trade payables and accruals	(31,669)	(722,406)	5,828	(117,925)
Cashflow from operations	(348,097)	689,628	(1,067,032)	(910,478)

b. **Credit Standby Arrangements with Banks**

There are no credit or standby arrangements with financiers as at 31 December 2009 (2008: Nil)

NOTE 22: EVENTS AFTER THE BALANCE SHEET DATE

On 11 January, Pryme lodged its Oil and Gas Reserves Report as at 1 January 2010.

Details of the contract entered into between Pryme and Justin Pettett, Chief Executive Officer and Managing Director were announced on 25 January 2010.

The financial report was authorised for issue on 26 February 2010 by the Board of Directors.

NOTE 23: RELATED PARTY TRANSACTIONS

	Note	Consolidated Group		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
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)	461,132	321,857	332,130	248,782
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. The exploration costs incurred were written off in 2009 upon determination that the project was unsuccessful.		-	292,865	-	-

Financials

NOTE 24: FINANCIAL RISK MANAGEMENT

a. **Financial Risk Management Policies**

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

i. Treasury Risk Management

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

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

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

ii. Financial Risk Exposures and Management

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

Interest Rate Risk

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

Foreign currency risk

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

Liquidity risk

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

Credit risk

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

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

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

— only utilising banks and financial institutions with an 'A' rating;
— all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and

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

Pryme Oil and Gas Limited ABN 75 117 387 354 and Controlled Entities

Financials

Price risk

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

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

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

			Fixed Interest Rate			
2009	**Average Interest Rate**	**Variable Interest Rate $**	**Less than 1 year $**	**1 to 5 years $**	**Non Interest Bearing $**	**Total $**
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	3.2%	5,454,607				5,454,607
Receivables	-				1,237,778	1,237,778
Financial Liabilities:						
Trade and sundry payables	-				(182,243)	(182,243)
Total		5,454,607			1,055,535	6,510,142
PARENT						
Financial Assets:						
Cash and cash equivalents	3.2%	5,346,220				5,346,220
Receivables	-				33,379	33,379
Financial Liabilities:						
Trade and sundry payables	-				(72,582)	(72,582)
Total		5,346,220			(39,203)	5,307,017

			Fixed Interest Rate			
2008	**Average Interest Rate**	**Variable Interest Rate $**	**Less than 1 year $**	**1 to 5 years $**	**Non Interest Bearing $**	**Total $**
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

Financials

	Average Interest Rate	Variable Interest Rate $	Less than 1 year $	1 to 5 years $	Non Interest Bearing $	Total $
PARENT						
Financial Assets:						
Cash and cash equivalents	7.5%	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

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.

Price Risk Sensitivity Analysis

At 31 December 2009, 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	
	2009 $	2008 $	2009 $	2008 $
Change in profit				
— Increase in oil/gas price by 10%	**162,456**	**315,887**	**-**	**-**
— Decrease in oil/gas price by10%	**(162,456)**	**(315,887)**	**-**	**-**

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

Financials

Notes to the Financial Statements for the Year Ended 31 December 2009

NOTE 25: COMPANY DETAILS

The registered office of the company is:

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

The principal place of business is:

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

Financials

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 18 to 48 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 2009 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 8 to 15 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 2009.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland.

26 February 2010

Independent Auditor's Report

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Partners

Robert W. Clarke
Richard Hoult
Michael J. McDonald

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial report of Pryme Oil and Gas Limited (the company) and Pryme Oil and Gas Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 31 December 2009, and the statement of financial performance, 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.

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.

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
Level 25, 71 Eagle Street, Brisbane, Queensland, 4000 Australia
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Telephone: + 61 7 3317 7877 Facsimile: + 61 7 3100 0028
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Independent Auditor's Report

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

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 of Pryme Oil and Gas Limited on 12 February 2010, 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 and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company and consolidated entity's financial position as at 31 December 2009 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in the report of the directors for the year ended 31 December 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Pryme Oil and Gas Limited for the year ended 31 December 2009, complies with s 300A of the *Corporations Act 2001.*

Moore Stephens

MOORE STEPHENS

M. J McDonald
Partner

Brisbane, 26 February. 2010

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Email: infob@moorestephens.com.au Web: www.moorestephens.com.au

Corporate Directory

Directors

Mr George Lloyd (Chairman)
Mr Justin Pettett (Managing Director)
Mr Ryan Messer (Executive Director)
Mr Greg Short (Non-Executive Director)
(effective 21 January 2010)
Mr Ananda Kathiravelu (Non-Executive Director)
(upto 14 October 2009)

Company Secretaries

Mrs Janine Rolfe (upto 25 January 2010)
Ms Swapna Keskar

Registered and Principal Office

Level 7, 320 Adelaide Street
BRISBANE QLD 4000

Phone: +61 7 3371 1103
Fax: +61 7 3371 1105

Postal Address

GPO Box 111
BRISBANE QLD 4001

USA Office

1001 Texas Ave.
Suite 1400
HOUSTON TX 77002

Phone: +1 713 401 9806
Fax: +1 832 201 0936

Email: info@prymeoilandgas.com
Website: www.prymeoilandgas.com

Share Registry

Link Market Services Limited
Level 15, 324 Queen Street
BRISBANE QLD 4000

Phone: +61 2 8280 7454
Fax: +61 2 9287 0303

Auditors

Moore Stephens
Level 25, 71 Eagle Street
BRISBANE QLD 4000

Phone: +61 7 3317 7851
Fax: +61 7 3100 0028

Attorneys

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

Stock Exchanges

Australian Securities Exchange Limited (ASX)
Code: PYM

International OTCQX
Code: POGLY

Australian Company Number

117 387 354

Australian Business Number

75 117 387 354

Notes

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pryme
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BRISBANE – HOUSTON