


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 2010

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 2010
Previous Corresponding Period	12 months to 31 December 2009

2. Results for Announcement to the Market

	Up/Down	% Change	Year ended 31 December 2010 A$
Revenue from ordinary activities	Up	56	3,224,274
Profit/(loss) after tax attributable to the members	Up	26	(3,164,600)
Net Profit/(loss) for the period attributable to members	Up	26	(3,164,600)

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. Consolidated Statement of Comprehensive Income with notes to the statement

Refer to page 17 of the 2010 Financial Statements and accompanying notes.

4. Consolidated Statement of Financial Position with notes to the statement

Refer to page 18 of the 2010 Financial Statements and accompanying notes.

5. Consolidated Statement of Cash Flows with notes to the statement

Refer to page 20 of the 2010 Financial Statements and accompanying notes.

6. Consolidated Statement of Changes in Equity

Refer to page 19 of the 2010 Financial Statements.

7. Dividends

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

8. Dividend/Distribution Reinvestment Plan (DRP)

The Consolidated Group does not have in operation a DRP.

9. Net Tangible assets (NTA) per security

	2010 A$	2009 A$
NTA per security	0.11	0.15

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

Refer to page 35 of the 2010 Financial Statements.

11. Associates and joint venture entities

Refer to page 35 of the 2010 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 $3,164,600 represents an improvement of 26% over the 2009 year loss, attributable primarily to higher oil and gas revenue resulting from both higher commodity prices and increased production from the Four Rivers and Catahoula Lake projects. The 2010 result also includes asset writedowns/loss on sale of working interests of $1,107,938 (2009: $2,889,917).

15. Status of Audit

The 2010 Financial Statements have been audited. The Independent Auditor's Report is set out on pages 46 - 47 of the 2010 Financial Statements

16. Dispute or qualifications if not yet audited

Not applicable

17. Dispute or qualifications if audited

Not applicable

Justin Pettett
Managing Director
23 February 2011

Directors' Report

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

1. Directors

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

(a) George Lloyd – Chairman

Independent Non–Executive Director (Appointed 29 January 2008)

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

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

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

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

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

Executive Director (Appointed 1 December 2005)

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

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

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

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

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

(c) Ryan Messer - Chief Operating Officer

Executive Director (Appointed 1 December 2005)

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

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

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

Directors' Report

(d) Gregory Short

Independent Non – Executive Director (Appointed 21 January 2010)

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

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

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

He also holds directorships in the following ASX listed companies:

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

2. Company Secretary

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

Janine Rolfe resigned as Company Secretary on 25 January 2010.

3. Principal Activities

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

4. Review of Operations and State of Affairs

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

5. Events Subsequent to Reporting Date

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

6. Likely Developments

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

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

Directors' Report

7. Environmental Regulations and Performance

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

8. Dividends

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

9. Options and Rights

Unissued Shares Under Option

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

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

(i) Share price at grant date $0.08

(ii) Expected price volatility 107.496%

(iii) Expected dividend yield 0%

(iv) Risk free interest rate 4.65%

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

Directors' Report

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

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

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

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

10. Directors' Meetings

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

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

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

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

11. Directors' Interests

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

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

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

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

3 Equivalent to 11,100 ordinary shares.

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

Directors' Report

12. Remuneration Report

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

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

Remuneration Policies and Practices

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

Executive Remuneration Philosophy

At Pryme, Executive Remuneration consists of:

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

Total Reward Mix

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

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

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

Fixed Remuneration

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

Directors' Report

At-Risk Remuneration

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

STI

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

LTI

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

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

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

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

Note:

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

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

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

Directors' Report

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

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

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

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

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

The Non-Executive Directors are remunerated as described below.

Fees

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

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

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

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

<u>Relationship between Policy and Pryme's Performance</u>

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

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

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

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

Directors' Report

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

Anti-Hedging Policy

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

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

Continuous Improvement

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

REMUNERATION SUMMARY

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

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

2 Resigned 14 October 2009.

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

Directors' Report

OPTIONS AND RIGHTS AS REMUNERATION

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

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

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

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

Directors' Report

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

Estimated Value Range of Awards

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

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

Directors' Report

Summary of Key Contracts Terms

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

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

Directors' Report

13. Indemnification and Insurance of Officers and Auditors

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

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

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

14. Non-Audit Services

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

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

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

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

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

The auditor's independence declaration under section 307C of the Corporations Act is set out on page 16 and forms a part of the Annual Financial Report for the year ended 31 December 2010.

15. Proceedings on behalf of the Consolidated Group

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

16. Corporate Governance

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

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

Justin Pettett
Managing Director
Brisbane, Queensland
23 February 2011

Auditor's Independence Declaration

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Offices

Brisbane
Burdekin
Cairns
Innisfail
Toowoomba
Townsville

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

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

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

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

Moore Stephens

MOORE STEPHENS

MJ McDonald

Date:11 February 2011

Brisbane, Queensland.

Moore Stephens (Queensland) Audit Pty Ltd ABN 62 126 208 179
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An independent member of Moore Stephens International Limited – members in principal cities throughout the world

Chartered Accountants
NUMBER ONE IN NUMBERS

charter financial planning

Liability limited by a scheme approved under Professional Standards Legislation
The Queensland firm is not a partner or agent of any other Moore Stephens firm
An independent member of Moore Stephens International Limited - members in principal cities throughout the world

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Financials

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

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

Financials

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

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

Financials

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

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

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

Financials

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31 DECEMBER 2010

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

Financials

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Preparation

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

Accounting Policies

(a) **Principles of Consolidation**

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

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

Jointly Controlled Entities

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

(b) **Income Tax**

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

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

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

Financials

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

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity 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 investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. *Available-for-sale financial assets*

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

v. *Financial Liabilities*

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

Fair value

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

Impairment

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

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(g) **Impairment of Assets**

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

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

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

(h) **Investments in Associates**

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

(i) **Foreign Currency Transactions and Balances**

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

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

(j) **Employee Benefits**

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

Financials

Equity-settled compensation

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

(k) **Provisions**

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

(l) **Cash and Cash Equivalents**

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

(m) **Revenue and Other Income**

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

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

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

(n) **Goods and Services Tax (GST)**

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

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

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

(o) **Comparative Figures**

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

(p) **Capital Raising Costs**

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

Critical Accounting Estimates and Judgments

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

Financials

Key Estimates — Impairment

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

Key Judgments — Provision for Impairment of Receivables

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

NOTE 2: PARENT INFORMATION

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF FINANCIAL POSITION

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

Financials

NOTE 3: REVENUE AND EXPENDITURE FOR YEAR

REVENUE

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

EXPENDITURE

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

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

Financials

NOTE 4: INCOME TAX EXPENSE

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

Financials

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

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

b. Related Party Transactions – Key Management Personnel

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

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

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

c. Equity Instrument Disclosures

Details of options and performance rights provided as remuneration together with qualifying and vesting terms and conditions are provided in the remuneration report of pages 8 - 14.

(i) **Options**

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

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

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

Financials

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

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

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

d. Shareholdings

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

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

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

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

Financials

NOTE 6: AUDITORS' REMUNERATION

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

NOTE 7: EARNINGS PER SHARE

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

NOTE 8: CASH AND CASH EQUIVALENTS

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

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

Reconciliation of cash

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

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

Financials

NOTE 9: TRADE AND OTHER RECEIVABLES

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

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

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

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

NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Interests are held in the following associated unincorporated companies

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

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

Financials

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

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

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

Financials

NOTE 11: CONTROLLED ENTITIES

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

* Percentage of voting power is in proportion to ownership

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

NOTE 12: INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

Financials

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

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

a. **Movements in Carrying Amounts**

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

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

Financials

NOTE 14 WORKING INTEREST

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

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

NOTE 15: TRADE AND OTHER PAYABLES

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

NOTE 16: ISSUED CAPITAL

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

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

Financials

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

b. Options

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

NOTE 17: RESERVES

a. Foreign Currency Translation Reserve

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

b. Option Reserve

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

Financials

NOTE 18: CAPITAL AND LEASING COMMITMENTS

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

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

NOTE 20: SEGMENT REPORTING

Operating Segments — Geographical Segments

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

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

Accounting Policies

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

Financials

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

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

Exploration Expenditure Write-offs

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

Financials

NOTE 21: CASH FLOW INFORMATION

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

b. Credit Standby Arrangements with Banks

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

NOTE 22: EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 23: RELATED PARTY TRANSACTIONS

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

Financials

NOTE 24: FINANCIAL RISK MANAGEMENT

a. Financial Risk Management Policies

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

i. Treasury Risk Management

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

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

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

ii. Financial Risk Exposures and Management

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

Interest Rate Risk

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

Foreign Currency Risk

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

Liquidity Risk

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

Credit Risk

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

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

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

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

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

Price risk

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

b. Financial Instruments composition and maturity analysis.

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

Financials

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

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

c. Net Fair Values

The net fair values of:

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

– Other assets and other liabilities approximate their carrying value.

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

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

d. Sensitivity Analysis

Interest Rate Risk, Foreign Currency Risk and Price Risk

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

Financials

Price Risk Sensitivity Analysis

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

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

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

NOTE 25: COMPANY DETAILS

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

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

The principal place of business of the US subsidiaries is:

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

Financials

DIRECTORS' DECLARATION

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

   (a) the Financial Statements and Notes as set out on pages 17 to 44 are in accordance with the Corporations Act 2001, including:

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

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

   (b) the remuneration disclosures that are included on pages 8 to 14 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

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

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

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland.
23 February 2011

Independent Auditor's Report

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Offices

Brisbane
Burdekin
Cairns
Innisfail
Toowoomba
Townsville

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Moore Stephens (Queensland) Audit Pty Ltd ABN 62 126 208 179
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Independent Auditor's Report

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Opinion

In our opinion:

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

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

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

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

Report on the Remuneration Report

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

Auditor's Opinion

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

Matters Relating to the Electronic Publication of the Audited Financial Report

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

Moore Stephens

Moore Stephens
Chartered Accountants

Michael J McDonald
Director

Signed in Brisbane, Australia on 23 February 2011

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Notes

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Corporate Directory

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

Company Secretary
Ms Swapna Keskar

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Level 7, 320 Adelaide Street
BRISBANE QLD 4000

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Australian Business Number
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pryme
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