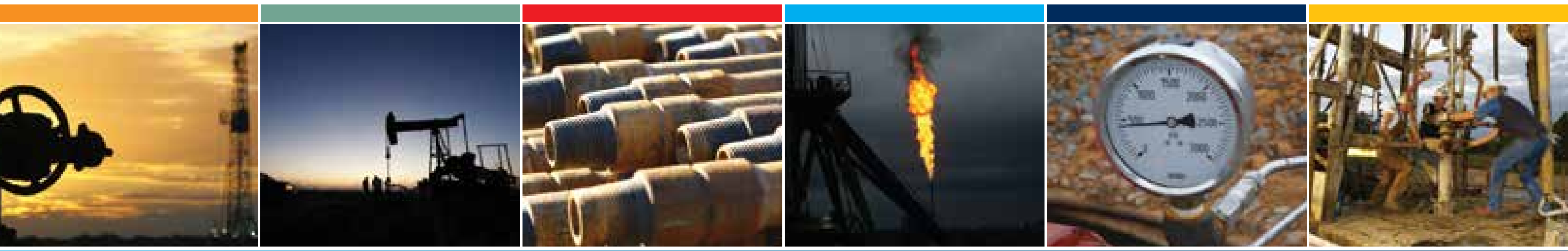

PRYME ENERGY LIMITED

(ABN 75 117 387 354)

AND

CONTROLLED ENTITIES

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

Table of Contents

Glossary

A$	Australian Dollars
US$	United States Dollars
Bbls/day	Barrels (of oil) per day
MMBO	Million Barrels of Oil
MMBOE	Million Barrels of Oil Equivalent
BOE	Barrels of Oil Equivalent
BOE/day	Barrels of Oil Equivalent per day
BOE/month	Barrels of Oil Equivalent per month
Mcf	Thousand cubic feet (of natural gas)
Mcf/day	Thousand cubic feet (of natural gas) per day
NRI	Net Revenue Interest
WI	Working Interest
TVD	Total Vertical Depth
TMD	Total Measured Depth
MD	Measured Depth
OOIP	Original Oil in Place
3.28 feet	Equals 1 metre

Chairman's Letter

Dear Shareholder,

This is my first report to you as Chairman and therefore I reflect on a year in which I was not a director, but a shareholder.

I'm sure you don't need me to report that 2015 was a particularly difficult year for your Company. During the course of the year it became apparent that the Capitola project in Texas, where Pryme had drilled four wells, was not commercial and had little upside. The year also brought a collapse in the price of oil with the consequent negative impact on cash flow, project values, and access to capital.

The combination of these factors had a significant negative impact on Pryme's share price. The year also ended with shareholder disquiet and a move for change. The latter resulted in board changes that culminated in myself, Don Beard and Ray Shorrocks joining the board with an intention to put Pryme back on a path of shareholder wealth creation.

During the year Pryme recorded a Total Comprehensive Loss of A$10.6m from revenues of A$2.3m. The results included total write downs of A$8.6m for its oil and gas assets. At year end the cash balance was A$2.8m as the outgoing board approved nearly A$1m in redundancy payments, the bulk of which were paid in early January before the new directors joined the board.

The Capitola Project, has been written down to A$2.9m generating an impairment charge in the accounts of A$4.9m after an unsuccessful four well development. On 2nd March 2016 the board accepted a US$2.2m offer for the asset after a review of Capitola by your new board, led to the conclusion that it has very limited upside and capital released from its sale could be deployed to projects with better value creation possibilities.

Similarly a review of the Four Rivers Project demonstrated that it had no material upside and that many of the wells were not economic. These small interests were sold for US$120,000 in February 2016 resulting in a further impairment charge of A$3.7m.

At the time of writing your new board had not completed a review of the Newkirk leases in Oklahoma where the Company acquired a net 4,049 acres in Kay County in which Pryme has a 100% WI and an 81.25% NRI. The acreage acquisition has allowed the Company to book 2P reserves of 5.1 MMBOE.

The first task of 2016 is to complete the review of the Company's existing assets and develop a strategy to generate shareholder wealth in a difficult industry environment. This strategy may lead to asset sales with capital re-deployed into projects that have the ability to impact shareholder value substantially.

Your board does not expect this to happen overnight but it is committed to adopting strategies and implementing business plans that will lay the necessary foundation for future value creation.

Yours faithfully,

Stephen Mitchell
Chairman

Operations Report

Annual Sales Report (net to Pryme)

Project	Calendar Year 2015		Calendar Year 2014	
	Natural Gas (Mcf)	Oil/Condensate (Bbls)	Natural Gas (Mcf)	Oil/Condensate (Bbls)
Four Rivers*	0	7,350	0	9,011
Raven*	0	0	26,091	516
Turner Bayou*	0	0	0	6,056
Capitola	35,379	29,088	0	0
Total	35,379	36,438	26,091	15,583
Total (BOE)**	**42,335**		**19,932**	

** Sales for the last month of the year is an estimate based on production data from prior months of production*

*** Includes minor amounts of production from additional projects (i.e. Condor.) Natural gas is converted to barrels of oil equivalent (BOE) on the basis of 6 Mcf of natural gas is equivalent to 1 BOE.*

Average daily sales for the calendar year ending 31 December 2015 were 100 barrels of oil per day (BOPD) (2014: 43 BOPD) and 97 Mcf per day of natural gas (2014: 72 Mcf) (116 BOE per day (2014: 55 BOE)). The increased level of sales for the year is attributable to the investment made in the four wells drilled in Capitola at the end of 2014 and the beginning of 2015.

Major activities in 2015 included the continued drilling in the Capitola Oil Project and the acquisition and recent expansion of the Newkirk Project in Kay County Oklahoma.

In the 2015 year the management team at Pryme suspended the development programme at the Capitola Oil Project due to declining oil prices and overall poor production performance from the four producing wells drilled. A subsequent review by the new board concluded that the asset had limited potential to generate value for shareholders and that a sale of the asset should be considered. On 2nd March 2016, the asset was sold for US$2.2m. The new board and management team at Pryme are reviewing the assets, business strategy and opportunities in an effort to restore shareholder value in this challenging oil and gas environment.

Projects

Capitola Oil Project (25% – 37.5% WI)

Pryme entered the Capitola Oil Project in an attempt to get set early in what appeared to be a relatively new emerging shale play targeting the Cline Shale. As this play failed to evolve into a successful new shale production province, the Company turned its attention to the Canyon Sands where it's value creation strategy was to develop the shallower, well-defined targets using advanced drilling, completion and stimulation technology. The overall production results from the first four wells made in clear that this strategy had failed, despite the good performance of one of the wells.

The Capitola Oil Project acreage is contained within two blocks of contiguous leases referred to as Sweetwater (approx. 7,000 acres) and Claytonville (approx. 2,333 acres) to the north of Sweetwater. Pryme is the operator of the producing wells and associated units.

There were primary targets in Capitola along with several secondary targets. When Pryme acquired Capitola the primary targets were the Breckenridge Lime at 4,500 feet deep, the Canyon Sand series at approximately 5,200 feet in depth and the Cline Shale at 6,000 feet deep. Pryme owns a 37.5% Working Interest (WI) in 9,333 acres (3,500 net acres) in all mineral rights from the surface through to the top of the Cline Shale (Shallow Rights) and a 25% WI (2,333 net acres) in all other rights including the Cline Shale (Deep Rights).

The Capitola Project was sold subsequent to year end for US $2.2m. A review by the current Board concluded that the asset has limited potential to generate any meaningful value for shareholders and, as such, the Board considered that it was in the best interests of the Company to sell it.

Four Rivers Project (8% – 25% WI)

The Four Rivers Project extends from Winn, Concordia and Catahoula Parishes in Louisiana to Adams and Jefferson Counties in Mississippi. The project is targeting multiple "stacked" oil zones throughout the Middle-Wilcox Formation at depths ranging from approximately 4,000 to 8,000 feet.

Pryme's share of oil sales from Four Rivers for the year was 7,350 barrels (20 average BOPD net to Pryme), a 18% decline over the previous year attributable to normal decline.

After review of the project, your new Board made the decision to divest of the Four Rivers assets. A buyer was sourced, a purchase and sale agreement signed and closing occurred effective 1st January 2016. Pryme received US$120,000 for the producing wells and associated leases.

Newkirk Project, Kay County Oklahoma (100% WI 81.25% NRI)

As at 31 December 2015, Pryme held 100% WI and 81.25% NRI in 4,049 acres located in Kay County, Oklahoma near Ponca City. This acreage position was acquired during the year by a combination of the purchase of Raya Groups' leases and new leasing under a three year primary term and a two year option to extend the primary term.

Oil and gas leases held by Pryme are contiguous with an additional 4,936 acres held by Empire Energy Group (ASX: EEG). Under a Joint Operating Agreement with Empire (as Operator) the two companies have agreed to the further development of the combined acreage (8,985 acres) on a 50/50 basis.

During the last quarter of the year under review, the Operator undertook a small seismic acquisition programme on a portion of the project acreage. Interpretation of the data continues. The estimated cost for Pryme's share of the geophysical review was US$125K.

On 27 November 2015, Pryme reported an updated Independent Reserve Report for the Project. The Reserves estimates are shown in the table below and are for 2P (Probable) Reserves only; 3P (Possible) Reserve and Contingent Resources have not been estimated.

Projects (cont.)

Newkirk Project

Reserve Category	# Wells	Net Remaining Reserves 1 November, 2015		
		Oil (MBBL)	Natural Gas (MMCF)	Oil Equivalent (MBOE)
Probable (2P)	101	2,500	15,967	5,118
Total	101	2,500	15,967	5,118

The Reserves were reviewed by Keith Drennen and J.P. Dick of Pinnacle Energy Services LLC (Pinnacle), Registered Engineers in the state of Oklahoma in accordance with the Society of Petroleum Engineers, 2007 Petroleum Resources Management System. Further details and assumptions on the Newkirk Project Reserves can be found in the Company's announcement dated 27 November 2015.

This Project will undergo an evaluation by the board to determine whether it offers the potential to add value to the Company.

OIL AND GAS TENEMENTS

Project	Location	Interest acquired or disposed of during the Year net to Pryme	Total acres owned net to Pryme	Working Interest held as at 31 December 2015
Newkirk	Kay and Noble Counties, Oklahoma	4,049 acres	4,049 acres	100%
Capitola	Nolan and Fisher Counties, Texas	-	3,500 acres (Shallow Rights)	100% in each well 37.5% in the undeveloped acreage
		-	2,334 acres (Deep Rights)	25% in the undeveloped acreage
Four Rivers	LaSalle and Catahoula Parishes, Louisiana; Jefferson & Wilkinson Counties, Mississippi	-	240 acres	19% average in each well

Note: Four Rivers and Capitola were sold subsequent to the financial year end.

Corporate Governance Statement

Pryme's Board of Directors believes there is a strong link between high standards of corporate governance and equity performance. We are committed to operating in accordance with Pryme's corporate governance policies in all aspects of our business.

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

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

Pryme ensures, wherever possible, that its practices are consistent with the Third Edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Principles and Recommendations (ASX Principles). In certain circumstances, due to the size and stage of development of Pryme, it may not be practicable or necessary to implement the ASX Principles in their entirety. Pryme's statement of conformity to the ASX Principles is set out below, areas of divergence are noted.

Principle 1 – Lay solid foundations for management and oversight

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

The Board establishes the strategic direction and policy framework within which the day-to-day business of the Company is managed. During the year, management's role was to manage Pryme in accordance with the direction and delegations of the Board and the Board is responsible for overseeing the activities of management in carrying out these delegated duties.

Board members are committed to spending sufficient time to enable them to carry out their duties as Directors of Pryme. Candidates for Directorship must confirm that they have the necessary time to devote to their Board position prior to appointment. Non-executive Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Executives are provided with a formal job description and an employment contract describing their term of appointment, duties, rights, responsibilities and rights on termination. Executives are subject to a formal performance review process on an annual basis in December. No formal review was conducted during the year.

In relation to the appointment of future directors, at the commencement of the Non-executive Director selection process, the Company will undertake appropriate checks on potential candidates to consider their suitability to fill a casual vacancy on the Board or for election as a Non-executive Director.

Prior to their appointment, directors are expected to provide the Chairman with details of other commitments and an indication of time involved, and to acknowledge that they will have adequate time to fulfil their responsibilities as a Non-executive Director of the Company.

Directors available for re-election at a general meeting will be reviewed by the Remuneration & Nomination Committee and recommended to the Board. Directors are re-elected in accordance with the Company's Constitution and the ASX Listing Rules. Shareholders will be provided with all material information for a Director's election in the Notice of Meeting that would be relevant for shareholders to make a decision on whether or not to elect or re-elect a Director, such as the Director's qualifications, experience and contribution to the Board and a statement by the Board as to whether it supports the election.

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

In addition to its executive management team, Pryme engages technically experienced, consultants with valuable knowledge and experience in petroleum engineering, oil and gas leasing, land management and geology.

Corporate Governance Statement (cont.)

Each Director has access to the Company Secretary who is responsible to the Board through the Chairman on all matters relating to governance and the conduct and functions of the Board and Committees.

Given the size and scale of operations of the Company, the Board has decided not to adopt a Diversity Policy at this stage. Accordingly, the Board has not yet set any measurable objectives for achieving gender diversity.

The percentage of women employees in the whole organisation, senior management and the Board are as follows:

- **Whole organisation:** 41%
- **Senior Management:** 33%
- **Pryme Board:** NIL

The Board typically carries out a Board performance assessment on an annual basis where the performance of the Chairman is reviewed and assessed by the other Directors, and the Chairman reviews and assesses the performance of the other Directors.

During the year under review, the Board conducted an informal review during the year of its performance.

The Board conducts informal strategy sessions as appropriate to provide the opportunity for Directors and management to review operations and consider proposed future activities. It is proposed to conduct a formal strategy session in 2016. Given the size of the Board and management team there are also frequent opportunities for less formal strategy discussions.

Principle 2 – Structure the Board to add value

The Remuneration & Nomination Committee is primarily responsible for determining remuneration, establishment of recruitment policies and procedures, reviewing the performance of Directors and senior executives and reviewing the composition and competencies of the Board. The Committee Charter sets out the responsibilities and functions of the Committee in detail.

During the reporting period, the Committee was comprised of Mr George Lloyd and Mr Greg Short (until 1 September 2014) and Mr George Lloyd and Mr Daniel Lanskey from 1 September 2015 to 20 December 2015 (when the Committee was abolished), with the Committee Chairman being Mr George Lloyd, an independent Director. As such, the Company does not wholly comply with ASX Principles 2.1 and 8.1 which recommend that the Committee comprise of at least three members with majority of them being independent. However given the size of the Company and the stage of its development, the Board considers the Committee to be of sufficient size and independence to perform its functions effectively. On 13 January 2016 the Committee was reconstituted and Mr Donald Beard was appointed Chair of the Remuneration & Nomination Committee.

Details of the Committee members' attendance at Committee meetings are set out in the 2015 Directors' Report.

The Board's current skills matrix includes expertise and experience in: mergers and acquisition, corporate development, senior executive leadership and experience, engineering, mining and exploration, geology and discovery, development and production of oil and gas, divestment and sale of assets, corporate affairs and community relations.

Pryme currently has three directors as at the date of the Annual Report. Mr Stephen Mitchell is currently Executive Chairman. Mr Ray Shorrocks is a non-independent Non-executive Director and Mr Donald Beard is an independent non-executive Director.

During the reporting period, Pryme partly complied with ASX Principle 2.4 which requires that a majority of the Board should be Independent. During the period 29 June 2015 to 1 September 2015, a majority of the board was comprised of independent directors. During the periods 1 January 2015 to 28 June 2015 (Mr Lloyd and Mr Short) and 2 September 2015 to 31 December 2015 (Mr Lloyd and Mr Lanskey), the board comprised two independent directors and two non-independent directors (Mr Pettett and Mr Messer) and therefore did not comply with ASX Principle 2.4. The Board believes that, given the size of the Company, the nature of its operations and the ability of all incumbent directors to bring an independent judgement to bear in Board deliberations, a three member Board comprising at least one independent director is appropriate for the Company in its present stage of development.

Corporate Governance Statement (cont.)

During the reporting period, there were a number of changes to the Board. The following table outlines the Directors of the Company during the reporting period, including their period of office, non-executive and independence status.

Name	Appointment date	Cessation date	Non-executive status	Independence status
George Lloyd	29 January 2008	31 December 2015	✓	✓
Justin Pettett	1 December 2005	12 January 2016	✗[1]	✗
Ryan Messer	1 December 2005	12 January 2016	✗[2]	✗
Daniel Lanskey	29 June 2015	3 February 2016	✓	✓
Gregory Short	21 January 2010	1 September 2015	✓	✓

[1] *Justin Pettett was Managing Director and Chief Executive Officer*
[2] *Ryan Messer was Chief Operating Officer.*

The board as at the date of this report is comprised of:

Name	Appointment date	Non-executive status	Independence status
Stephen Mitchell	12 January 2016	✗[1]	✗
Ray Shorrocks	12 January 2016	✓	✗
Donald Beard	12 January 2016	✓	✓

[1] *Temporarily Executive Chairman*

During the reporting period, Pryme complied with ASX Principle 2.5, in that George Lloyd was an independent director and not the CEO of Pryme. Post reporting period, Daniel Lanskey was Chairman from 1 January 2016 to 12 January 2016 and was also an independent director and not the CEO of Pryme. On 13 January 2016, Stephen Mitchell (not independent) was appointed as the Chairman of the Board, but not the CEO of Pryme, however on 4 February 2016, Stephen Mitchell was appointed Executive Chairman on a temporary basis and took on many components of the CEO role.

It is intended that the composition of the Board be balanced, with Directors possessing an appropriate mix of skills, experience, expertise, qualifications and contacts relevant to Pryme's business. The qualifications, experience and tenure of the Directors are set out in the 2015 Directors' Report. The Board Charter and the Remuneration & Nomination Committee Charter outline in more detail the procedure for the selection and appointment of new directors.

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

- holds more than five percent of the voting shares of Pryme (in conjunction with their associates) and is not an officer, or otherwise associated directly with a holder of more than five percent of the voting shares of Pryme;
- has within the last three years been employed in an executive capacity by Pryme or another group member, or has been a Director after ceasing to hold any such employment;
- has within the last three years been a principal of a material professional adviser or a material consultant to Pryme or another group member, or an employee materially associated with the service provided. In this context, the relationship with the professional adviser or consultant shall be deemed to be material if payments from Pryme exceed 10% of Pryme's annual expenditure to all professionals and consultants or exceed 10% of the recipient's annual revenue for advisory or consultancy services;
- is a material supplier or customer of Pryme or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer. In this context, the relationship with the supplier or customer shall be deemed to be material if annual payments to or from that supplier or customer exceed 10% of the annual consolidated gross revenue of either Pryme or that supplier or customer; and
- has a material contractual relationship with Pryme or other group member other than as a Director of Pryme.

Corporate Governance Statement (cont.)

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

As a new director, Dan Lanskey undertook an induction process which included a full briefing on Pryme meetings with key executives, tours of the operating sites and receipt of an induction package containing key corporate information and presentations. At the time of this report, the induction for the new directors was ongoing.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. This includes education concerning key developments in the Company and in the industry and environment in which the Company operates.

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

Principle 3 – Promote ethical and responsible decision-making

The Board has adopted a Code of Conduct and Ethics which is published on the Company's website. The Board, senior executives and all employees are committed to implementing and complying with the Code. The Code requires that the Company and its employees, consultants, contractors, advisors and all other people when they represent Pryme operate to the highest standards of ethical behaviour, honesty and fairness in relationships with stakeholders. Stakeholders include employees, contractors, clients, customers, suppliers, joint venture partners, shareholders, government authorities, regulators, creditors and the community as whole.

It is in the best interests of Pryme for all personnel to immediately report any observance of a breach of the Code. All personnel are requested to report immediately any circumstances which may involve a breach of this Code to the Company Secretary, the Managing Director or the Chairman.

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

The Company has adopted a Securities Trading Policy in line with the ASX Listing Rules and Guidance Note to regulate dealings by the Company's directors, employees and all other people when they represent Pryme.

Consistent with the legal prohibitions on insider trading contained in the Corporations Act, all Pryme personnel are prohibited from trading in Pryme's securities while in possession of material non–public information. Material non-public information is information, which a reasonable person would expect to have a material effect on the price or value of Pryme's securities. The policy allows Pryme personnel, and their related parties, to buy or sell shares only during board sanctioned windows which include the six weeks period commencing the first trading day after the announcement of the Appendix 5B, the full year results, the half year results; the date of the AGM and such other dates as the Board determines. Trading outside the permitted windows is allowed only in exceptional circumstances with the prior written approval of the Board at least two business days prior to any proposed trade.

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

A copy of the Securities Trading Policy is available on the Corporate Governance section of the Company's website and has also been lodged with the ASX.

Corporate Governance Statement (cont.)

Principle 4 – Safeguard integrity in financial reporting

The Board has established an Audit Committee which is primarily responsible for determining the reliability and integrity of financial information to be included in the financial statements, accounts and other reports of Pryme, for ensuring the independence of external auditors and for financial risk management.

During the reporting period, given the small number of Directors, the Committee was comprised of Mr George Lloyd and Mr Greg Short (until 1 September 2015) and Mr George Lloyd and Mr Daniel Lanskey from 1 September 2015 to 31 December 2015, with the Committee Chairman being Mr George Lloyd, an independent Director. Mr George Lloyd, who was Chairman of the Board, was also Chairman of the Audit Committee. As such, the Company did not comply with ASX Principle 4.1 which recommends that the Chairman of the Board not be the Chairman of the Audit Committee and that the Committee consist of at least three members. However, the Board considered Mr Lloyd, who is an independent director, to be the most appropriately qualified of all incumbent Directors to be charged with this responsibility. The Board has now appointed Ray Shorrocks as the Chairman of the recently reconstituted Audit Committee. The Board also considers the size of the Committee to be appropriate for the size and scale of the Company at this time.

The Audit Committee operates in accordance with its Charter which has been approved by the Board and is published on Pryme's website. The Charter is reviewed regularly to ensure that it conforms to market practices. Importantly, at its absolute discretion, the Committee, or its members, may meet outside of a Committee Meeting with the external auditors of Pryme.

Details of the Committee members' attendance at Committee meetings are set out in the 2015 Directors' Report.

The Audit Committee is responsible for reviewing the nomination, performance and independence of the external auditors. Candidates for the position of external auditor of Pryme must be able to demonstrate complete independence from Pryme and an ability to maintain independence throughout the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis. Other than this mandatory criteria the Board may select an external auditor based on criteria relevant to the business of Pryme such as experience in the industry in which Pryme operates, references, cost and any other matters deemed relevant by the Board.

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

During the reporting period, at the time the Board approved the half and full-year results, the Managing Director, Chief Operating Officer and the Chief Financial Officer have represented to the Audit Committee and the Board that, to the best of their knowledge:

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

The external auditor attends the AGM and is available to answer any questions with regard to the conduct of the audit and the corresponding report.

Principle 5 – Make timely and balanced disclosure

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

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

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

Corporate Governance Statement (cont.)

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

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

1. concerning Pryme that a reasonable person would expect to have a material effect on the price or value of Pryme's shares; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of Pryme's shares.

Upon confirmation of receipt from the ASX, Pryme posts all information disclosed in accordance with this policy on its website in an area accessible by the public.

A copy of the Continuous Disclosure Policy is available on the Pryme website.

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

Principle 6 – Respect the rights of shareholders

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

Pryme is committed to:

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

The Annual Report, half-year report, Annual General Meeting and specific investor briefings are all important communication forums. The group encourages shareholders to attend and participate at general meetings to ensure accountability. Pryme welcomes questions from shareholders at any time and these will be answered within the confines of information that is already in the public domain and is not market sensitive.

Shareholder communication and investor relations are conducted in accordance with the Pryme Continuous Disclosure Policy and Shareholder Communication Policy, both of which are published on the Pryme website.

Pryme also makes available various communication avenues (including electronic form) for shareholders to make enquiries of Pryme and to receive updates on important developments (including email alerts).

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

- Corporate Governance Statement
- Board Charter
- Audit Committee Charter
- Remuneration and Nomination Committee Charter
- Code of Conduct and Ethics
- Continuous Disclosure Policy
- Risk Management Policy
- Shareholder Communications Policy
- Securities Trading Policy
- Environmental Management, Health and Safety Policy

Corporate Governance Statement (cont.)

Principle 7 – Recognise and manage risk

The Audit Committee is responsible for financial risk management and has not separately established a risk committee. The Board as a whole is responsible for risk oversight and risk management.

The Board is responsible for establishing and reviewing policies on risk management and internal control and acknowledges the importance of effective risk management to the long term success of Pryme. Pryme has a Board approved Risk Management Policy, published on the website, that assists the group in identifying and managing risk in accordance with best practice.

The Board has implemented the following control framework:

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

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

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

Due to the size and scale of operations of Pryme, there is no separate internal audit function. The Executive Director and the Chief Financial Officer monitor and give an appraisal of the adequacy and effectiveness of Pryme's risk management and internal control system. This is independent of the external auditor. In addition, the Board reviews and discusses current and emerging material risks at each Board Meeting. The Board did not conduct a review of the risk management and internal control system during the year, as the Board considered operational risk at each meeting and it was not considered necessary to conduct a formal review.

Management is responsible for designing and implementing the risk management framework. Management identifies and reviews the major risks impacting each area of the business and develops strategies to effectively mitigate these risks.

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

The Board considers it is subject to the following material exposures to risks.

Economic – The demand for, and price of, oil and natural gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas may have a material adverse effect on the Company's business, financial condition and results of operations.

Environmental – The Company's activities are subject to the environmental risks inherent in the oil and gas industry. The Company is subject to environmental laws and regulations in connection with operations it may pursue in the oil and gas industry; such operations are currently in Louisiana and Texas. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws. However, the Company may be the subject of accidents or unforeseen circumstances that could subject the Company to extensive liability. Further, the Company may require approval from the relevant authorities before it can undertake activities that are likely to impact the environment. Failure to obtain such approvals will prevent the Company from undertaking its desired activities. The Company is unable to predict the effect of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations in any area.

The Board mitigates the economic and environmental risks by discussing the economic conditions and environmental risks at every board meeting and where necessary it will engage experts to assist with the management of these risks.

Social sustainability – The Company does not consider it is subject to material social sustainability risks.

Corporate Governance Statement (cont.)

Principle 8 – Remunerate fairly and responsibly

As described previously, the Remuneration & Nomination Committee has been established to review all remuneration and performance related matters of Pryme and to operate in accordance with its Charter, as outlined on Pryme's website. As also previously noted, the Committee composition does not fully comply with Recommendation 8.1 which recommends that the Committee is comprised of at least three members with majority of them being independent. However given the size of the Company and the stage of its development, the Board considers the Committee to be of sufficient size and independence to perform its functions effectively.

The Committee will assist the Board in fulfilling its responsibilities with respect to establishing appropriate remuneration levels and incentive policies for employees.

All directors are invited to attend Committee meetings; however, "interested" directors do not vote on related matters. Senior executives are not directly involved in determining their remuneration.

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

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

(b) decisions in relation to executive remuneration packages;

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

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

The Pryme Personnel Securities Trading Policy states that executives are not permitted to enter into transactions in financial products, securities or derivatives which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes.

The Remuneration Report for the 2015 year and further details about the Remuneration Policy of Pryme are set out in the 2015 Directors' Report.

Directors' Report

In accordance with a resolution of directors, the directors present their report together with the Financial Report of Pryme Energy Limited (Pryme) and its wholly owned subsidiaries (together referred to as the Consolidated Group) for the financial year ended 31 December 2015 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) Stephen Mitchell – Executive Chairman

Executive Director (Appointed 12 January 2016, Executive Chairman since 4 February 2016)

Mr Mitchell has a Masters Degree in International Economics and Foreign Policy from John Hopkins University in Washington DC. following which he spent 10 years as a natural resources specialist at investment banks and advisory firms in the US and Australia. From 1999-2011 Stephen was the Managing Director of Molopo Energy Ltd, an ASX-listed oil and gas company that held assets in Australia, Canada, USA, China, India and South Africa. Under his stewardship, Molopo generated a 10 fold increase in shareholder value and expanded its market capitalisation from less than $1 million into an ASX 200 company.

Stephen was a founder and Chairman of Petrel Energy until retiring from the board in January 2015. He is a partner of Mitchell Peterson Capital Partners, a Melbourne based corporate advisory firm and is a director of several private companies including Lowell Resources Funds Management Pty Ltd.

He also holds, or has held, directorships in the following ASX listed company:

- Petrel Energy Limited (Executive Chairman, appointed 17 January 2012; retired 31 January 2015).

(b) Donald Beard

Independent Non-Executive Director (Appointed 12 January 2016)

Mr Beard is a petroleum geologist and one of Australia's most successful energy company executives. He has over 45 years' experience in both the domestic and international oil and gas businesses, with 37 of those years holding senior management or Board positions. He has a First Class Honours Degree in Geology and Mineralogy and commenced his career at Union Oil Company of California, later becoming a VP of Exploration for the Diamond Shamrock Corporation. He then returned to Australia to become CEO and Managing Director of ASX listed Peko Oil (taken over by Santos), then was the Managing Director of Cultus Petroleum from 1990 – 1999 and more recently was Chairman of Molopo Energy from 2001-2011. At each of these ASX listed companies he was responsible for generating substantial shareholder value.

With the exception of Pryme, Mr Beard has not served as a director of any Australian listed entity in the last three years. He is the founder and a current Director of the private entity Aldena Pty Ltd.

(c) Ray Shorrocks

Independent Non-Executive Director (Appointed 12 January 2016)

Mr Shorrocks has more than 20 years' experience in corporate finance and has advised a diverse range of mining and resource companies during his career at Patersons Securities Limited, one of Australia's largest full service stockbroking and financial services firms. He has been instrumental in managing and structuring equity capital raisings as well as having advised extensively in the area of mergers and acquisitions.

He also holds, or has held, directorships in the following ASX listed companies:

- Draig Resources Limited (Appointed 24 December 2015)
- Estrella Resources Limited (Appointed 1 July 2015)
- Galilee Energy Limited (Appointed 2 December 2013)
- Big Review TV (Appointed 1 July 2010, resigned 8 January 2014).

Directors' Report (cont.)

(d) George Lloyd

Independent Non–Executive Director (Appointed 29 January 2008, resigned 31 December 2015)

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 also a graduate of the Stanford Executive Program, Stanford University, California. He is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australasian Institute of Mining and Metallurgy.

He also holds, or has held, directorships in the following ASX listed companies:

- Ausenco Limited (Non-Executive Director, appointed May 2005; Chairman, appointed May 2013); and
- Cape Alumina Limited (Chairman, appointed January 2009, retired December 2014).

(e) Justin Pettett – Managing Director and Chief Executive Officer

Executive Director (Appointed 1 December 2005, resigned 12 January 2016)

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.

(f) Ryan Messer – Executive Director and Chief Operating Officer

Executive Director (Appointed 1 December 2005, resigned 12 January 2016)

Mr Messer graduated from the University of Central Florida with a degree in Business Administration, majoring in Marketing and Finance.

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

(g) Gregory Short

Independent Non – Executive Director (Appointed 21 January 2010, resigned 1 September 2015)

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 40 years experience in petroleum exploration. His experience includes 15 years overseas in senior exploration management positions in the USA, Europe and Africa.

He also holds directorships in the following ASX listed companies:

- MEO Australia Limited (Non-Executive Director, appointed July 2008);
- Po Valley Energy (Non-Executive Director, appointed July 2010); and
- Metgasco Limited (Non-Executive Director, appointed August 2013).

(h) Daniel Lanskey

Non – Executive Director (Appointed 29 June 2015, resigned 3 February 2016)

Mr Lanskey holds a post graduate Business Degree from Griffith University. He was previously Managing Director of AusTex Oil (ASX: AOK) (OTCQX: ATXDY).

He also holds, or has held, directorships in the following ASX listed companies:

- Raya Group Limited (Appointed 14 January 2015, resigned 22 October 2015); and
- AusTex Oil Limited (Appointed 1 March 2006, resigned 19 June 2014)

2. Company Secretary

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

Directors' Report (cont.)

3. Principal Activities

The principal activities of the Consolidated Group during the year under review were evaluating, 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. Details of Pryme's exploration activities are specified in the "Projects" section of the 2015 Annual Report. During the year $5,230,640 (2014: $5,154,503) was invested in exploration, evaluation and development activities. This investment was principally in drilling additional wells in the Capitola project and in acquiring the Newkirk project.

4. Review of Operations and Financial Results

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 2015 Annual Report. There were no other significant changes in the state of affairs of the Consolidated Group.

Revenue of the Consolidated Entity including from discontinuing operations for the year ended 31 December 2015 was $2,360,734 (2014: $1,781,173) as per Note 3 in the Financial Statements. This includes an increase in oil and gas revenue reflecting the commencement of production from the Capitola Project offset by natural decline in production across the Four Rivers and Lasalle projects. The average oil price received for the year was US$46 per Bbl (2014: US$94 per Bbl) with total revenue from oil sales attributable to the following producing assets: Capitola 79% (2014: 0%), Four Rivers 21% (2014: 54%). The average gas price received for the year was US$2.01 per Mcf (2014: $4.47 per Mcf).

For the year ended 31 December 2015, the Company has recorded a loss from operations of $12,258,857 (2014: Profit $4,972,860) including depletion of $2.4 million and a total impairment of $8.6 million in relation to the Capitola and Four Rivers projects. Total Comprehensive Loss for the Company for the period was $10,563,236 (2014: Income $6,069,182) including a gain of $1,695,621 (2014: $1,092,519) arising on translation of foreign operations.

For the year ended 31 December 2015, the Company has recorded negative cash flows from operations of $689,713 (2014: negative $287,021).

5. Events Subsequent to Reporting Date

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

As announced to the ASX on 12 January 2016, Mr Stephen Mitchell, Mr Ray Shorrocks and Mr Donald Beard were appointed as Non-Executive Directors of the Company and Mr Justin Pettett and Mr Ryan Messer resigned as Directors of the Company. As further announced on 4 February 2016, Mr Stephen Mitchell was appointed Executive Chairman of the Board and Mr Daniel Lanskey resigned from the Board.

During the period to 31 December 2015, an impairment charge of $3.7 million was recognised in relation to the Four Rivers project following a review of the project which demonstrated that it had no material upside and that many of the wells were not economic. In February 2016, the Four Rivers Project assets were sold with an effective date of 1 January 2016 for US$120,000, an amount equal to the carrying value of the asset (post impairment) as at 31 December 2015.

During the year to 31 December 2015, an impairment of $4.9m was recognised in relation to Capitola Project. On 2nd March 2016, the project was sold with an effective date of 1 January 2016 for US$2.2m, an amount equal to the carrying value of the asset (post impairment) as at 31 December 2015.

6. Likely Developments

The Consolidated Group intends to continue its principal activities of acquiring, disposing, exploring and developing oil and gas prospects. The strategies and objectives of the Consolidated Group are under review and discussed in greater detail in the 2015 Annual Report.

Directors' Report (cont.)

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 2015.

8. Dividends

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

9. Options and Rights

Unissued Shares Under Option

As a result of the Rights Issue and the Adjusting Offer announced via the prospectus lodged with the ASX on 30 June 2014, and subsequent to shareholder approval at the Extraordinary General Meeting held on 06 August 2014, the Company issued 400,000,023 $0.02 options with an expiry date of 23 July 2016. On 10 September 2014, the Company issued an additional 58,340,493 $0.02 options attached to the shortfall shares placed. The options have an expiry date of 23 July 2016. Accordingly, the unissued shares under option at the date of this report are as follows:

	Date of Issue	Held at 1 Jan 2015	Granted	Exercised	Expired	Held at the 31 Dec 2015	Vested during the year	Vested and exercisable as at 31 Dec 2015
Rights issue and Adjusting Offer	6.8.14	400,000,023		-	-	400,000,023	-	-
Shortfall	10.09.14	58,340,493		-	-	58,340,493	-	-

Unlisted Options that vest subject to achievement of performance conditions

At the Extraordinary General Meeting on 6 August 2014, shareholders approved the issue of 90,738,040 unlisted options (to convert into ordinary fully shares in the capital of the Company on a one-for-one basis at an exercise price of $0.02 with an expiry date of 23 July 2016) to employees of the Company (Management Options).

Vesting of the Management Options was in tranches subject to the achievement of the following Performance Conditions related to the Capitola project:

Tranche 1 – (25% of total available Management Options vest) – 200 barrels of oil equivalent (BOE)/day in production
Tranche 2 – (25% of total available Management Options vest) – 1.0 million (MMBOE) of 2P reserves
Tranche 3 – (25% of total available Management Options vest) – 2.0 MMBOE of 2P reserves
Tranche 4 – (25% of total available Management Options vest) – 700 BOE/day in production

During the year Tranche 2 of the Performance Conditions were satisfied and accordingly 22,684,510 of the Management options vested on 24 December 2015.

	Date of Issue	Held at 1 Jan 2015	Granted	Exercised	Expired	Vested during the year	Held at the 31 Dec 2015	Vested and exercisable as at 31 December 2015
Management Options	6.8.14	90,738,040	-	-	-	22,684,510	68,053,530	22,684,510

As announced to the ASX on 18 January 2016, 54,442,824 of the above Management Options lapsed upon cessation of employment of Mr Justin Pettett and Mr Ryan Messer on 1 January 2016.

Directors' Report (cont.)

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	16	16	3	3	2	2
Justin Pettett	16	16	3(#)	3(#)	N/A	N/A
Ryan Messer	16	14	3(#)	3(#)	N/A	N/A
Greg Short	10	10	3	3	N/A	N/A
Daniel Lanskey	8	7	1(#)	1(#)	2	2

\# *Committee comprises George Lloyd and Greg Short, although other directors are invited to attend Audit Committee Meetings.*

Directors Stephen Mitchell, Ray Shorrocks and Donald Beard were appointed subsequent to year end.

11. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2015 are as follows:

Director	Ordinary Shares	Entitlement to Ordinary Shares[1]	Management Options[2]	American Depository Receipts
Stephen Mitchell	26,997,604	-	-	
Ray Shorrocks	3,245,947	-	-	-
Don Beard	-	-	-	
Justin Pettett	19,000,000	-	36,295,216	-
Ryan Messer	11,130,095	-	36,295,216	37[3]
George Lloyd	16,251,432	1,500,000	-	-
Greg Short	5,160,000	1,290,000	-	-
Daniel Lanskey	8,487,504	9,243,752	-	-

1 *Options acquired under the Rights Issue and Adjusting Offer via the prospectus lodged with the ASX on 30 June 2014. These options were acquired on the same basis as all other shareholders.*

2 *The Management Options vest in tranches subject to the achievement of specified Performance Conditions. As at 31 December 2015, 25% of the performance conditions were satisfied and accordingly 9,073,804 options had vested to each of Mr Justin Pettett and Mr Ryan Messer. The balance of the above management options lapsed upon cessation of employment of Mr Justin Pettett and Mr Ryan Messer on 1 January 2016.*

3 *Equivalent to 11,100 ordinary shares.*

Other than as stated above in relation to Rights Issue Options and Managements Options approved during the year, 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 (cont.)

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 and Nomination 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.

Non-Executive Director Remuneration

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 2015, $182,550 (2014: $157,560) of the fee pool was used. In 2013, the non-executive directors proposed a temporary reduction to their fees during the year as one of a number of initiatives to conserve cash. The proposal was accepted by the Board and this arrangement continued during the 2015 year.

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.

Executive Remuneration

At Pryme, Executive Remuneration may consist of several components:

- Total Remuneration (TR) = Fixed Remuneration (FR) + Short Term Incentive (STI) + Long Term Incentive (LTI)
- STI and LTI are the 'at risk' portions of remuneration.
- STI may be paid in cash or shares and reflects the achievement of a number of short term goals established on an annual basis.
- LTI may be 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 or shares in circumstances of outstanding performance not otherwise appropriately rewarded.
- The Remuneration Committee will review the delivery and 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 amount of TR at risk is generally expressed as a proportion of FR 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 amount of TR at risk was the same as the amount of the Chief Executive Officer's TR at risk irrespective of the relative levels of FR. The proportion of FR will generally not change on a year to year basis but may be reviewed and modified by the Board.

Directors' Report (cont.)

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.

Fixed Remuneration

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

At-Risk Remuneration

Clear and focused performance targets for management are critical to the success of the Company. Nevertheless, the financial position and performance of the Company in any year is paramount to the board's decision whether or not to offer either or both of the at-risk components of the TR in any given year.

Directors' fee arrangements have undergone an amendment following changes to the Board in January and February 2016. Details of the new fee arrangements are explained in the announcement lodged with ASX on 4 February 2016.

Relationship between Policy and Pryme's Performance

Having regard to the prevailing financial position and performance of the Company at the appropriate time, the Board believes that remuneration arrangements for employees should typically 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 and are 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 Pryme's strategy are met. The Board believes that multiple tests set with specific regard to the key drivers of the Company at the time, if achieved, will demonstrably aid the creation of shareholder value.

Pryme's exploration, evaluation and development activities are expected to deliver results over an extended period of time and the Company's remuneration policy provides for incentives related to the successful execution of these activities. As a result, the relationship between the Company's remuneration policy and the Company's short term performance will not be immediately apparent on a year-to-year basis. This is expected to be the case in relation to earnings as the Company does not expect to record significant profit growth until additional revenues are derived from the increased oil and gas production.

Use of Remuneration Consultants

In November 2015, the Remuneration and Nomination Committee of the Board, comprising of Non-executive Directors, appointed Mercer Consulting (Australia) Pty Ltd (Mercer) as remuneration consultant to:

- perform a remuneration benchmarking exercise for each of the Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) (together, referred to as Management); and
- make a recommendation to the Committee in accordance with section 206L of the Corporations Act in respect of salary payable to each member of Management; and
- make a recommendation to the Committee in accordance with section 206L of the Corporations Act as to:
  - whether in the absence of a formal inventive scheme, it is appropriate for the Committee to consider a discretionary STI award (Discretionary Award) to be payable to each member of Management;
  - the size of any Discretionary Award; and
  - whether any Discretionary Award should be paid in cash or in shares.

Mercer presented their report to the Remuneration and Nomination Committee on 20 December 2015. Under the terms of the engagement, Mercer provided remuneration recommendations as defined by section 9B of the Corporations Act and was paid $15,000 for these services.

Mercer has confirmed that their recommendations have been made free from undue influence by members of Management.

Directors’ Report (cont.)

The following arrangements were made to ensure that the remuneration recommendations were free from undue influences:

- Mercer was engaged by the Remuneration and Nomination Committee (which comprises only of Non-executive Directors). The agreement for provision of remuneration consulting services was executed by Mr George Lloyd, Independent Non-executive Director, Chairman of the Board and of the Remuneration and Nomination Committee under delegated authority on behalf of the Remuneration and Nomination Committee;
- The report containing the remuneration recommendations was provided by Mercer directly to Mr Lloyd and/or the Remuneration and Nomination Committee; and
- Mercer was permitted to speak to Management throughout the engagement to understand the Company processes, practices and other business issues and obtain Management perspectives. However, Mercer was not permitted to provide any member of Management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from members of the Management.

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

Position	Year	Short Term			Post Employment	Equity Based Payments		Total ($)	Proportion of Remuneration Performance Related (%)
		Cash, Salary & Fees ($)	Related Party Fees ($)	Bonus[1]	Redundancy[2]	Super-Annuation ($)	Options		
NON-EXECUTIVE DIRECTORS									
George Lloyd	2015	-	104,300			-		104,300	-
	2014	-	105,000			-		105,000	-
Greg Short	2015	36,842				3,500		40,342	-
	2014	48,055	-			4,505		52,560	-
Daniel Lanskey	2015		37,908					37,908	
	2014	-	-	-		-		-	-
EXECUTIVES									
Justin Pettett	2015	321,151		38,051	402,015	19,046	5,866	786,129	11
	2014	361,726	-	45,216		18,279		425,221	11
Ryan Messer	2015	198,407	113,970	34,001	258,073		5,866	610,317	11
	2014	165,671	127,215	33,266		-		326,152	10
TOTAL	**2015**	**556,400**	**256,178**	**72,052**	**660,088**	**22,546**	**11,732**	**1,578,996**	
	2014	**575,452**	**232,215**	**78,482**	**-**	**22,784**	**-**	**908,933**	

1 *The bonus paid to executive directors during the 2014 year was re-invested in to the company via their participation in the March 2014 rights issue.*

2 *As announced to the ASX on 21 December 2015, the positions of CEO and COO were made redundant and Mr Justin Pettett and Mr Ryan Messer were paid redundancy payments on 4 January 2016.*

Directors' Report (cont.)

OPTIONS AND RIGHTS AS REMUNERATION

At the Extraordinary General Meeting on 6 August 2014, shareholders approved the issue of 90,738,040 unlisted options (to convert into ordinary fully shares in the capital of the Company on a one-for-one basis at an exercise price of $0.02 with an expiry date of 23 July 2016) to employees of the Company (Management Options).

Vesting of the Management Options was in tranches subject to the achievement of the following Performance Conditions related to the Capitola project as per Section 9 of this report.

During the year, Tranche 2 of the Performance Conditions were satisfied and accordingly 22,684,510 of the Management options vested on 24 December 2015. As announced to the ASX on 18 January 2016, 54,442,824 of the above Management Options lapsed upon cessation of employment of Mr Justin Pettett and Mr Ryan Messer on 1 January 2016.

Summary of Key Contracts Terms

The key contract and other terms of the executives during 2015 are set out below:

Contract Details	Justin Pettett Chief Executive Officer (CEO) and Managing Director (MD)	Ryan Messer Chief Operating Officer (COO)
Term	Redundant 1 January 2016	Redundant 1 January 2016
Termination notice period and payments	**Termination as per CEO Agreement:** **By Pryme** • For cause – 1 months' notice or salary in lieu (if convicted of any indictable criminal offence, termination shall be immediate). • For illness, injury or insanity – 9 months' notice or salary in lieu. • For convenience – 12 months' notice paid in lieu. • For redundancy – 12 months' notice + 1 months' salary for each completed year of service. **By the CEO** • For convenience – 3 months' written notice. • Immediately, with payment of annual and long service leave and 6 months' salary, if Pryme commits a serious or persistent breach of the Agreement. **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).

Directors' Report (cont.)

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 not paid any premiums in respect of any contract insuring the directors of Pryme against a liability for legal costs.

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

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, PricewaterhouseCoopers have the benefit of an indemnity to the extent they reasonably rely 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 2015 or to the date of this Report.

14. Non-Audit Services

Details of the amounts paid to 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 PricewaterhouseCoopers 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 PricewaterhouseCoopers as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

  i. PricewaterhouseCoopers 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 set out in the Annual Report forms a part of the Annual Financial Report for the year ended 31 December 2015.

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.

Stephen Mitchell
Chairman
Melbourne, Victoria
11 March 2015

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Pryme Energy Limited for the year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Simon Neill
Partner
PricewaterhouseCoopers

Brisbane
11 March 2016

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated Group	
		2015 $	2014 $
Revenue	3	29,261	31,028
Gross Profit		29,261	31,028
Other income	3	-	295,536
Accounting and Audit Fees		(158,145)	(147,837)
Depreciation, Amortisation and Exploration Write offs		(14,582)	(15,965)
Directors Remuneration		(1,223,432)	(677,366)
Professional Consulting Fees		(266,735)	(273,190)
Employee Benefits Expense		(588,756)	(271,681)
Travel and Accommodation Expenses		(114,282)	(224,795)
Administration Expenses		(501,156)	(489,864)
Gain / (Loss) on Sale of Assets		(4,948)	-
Finance Expenses		-	(2,842)
Profit / (Loss) before income tax		**(2,842,775)**	**(1,776,976)**
Income tax expense	4	-	-
Profit / (Loss) for the year from continuing operations		**(2,842,775)**	**(1,776,976)**
Profit / (Loss) attributable to discontinued operations	3	(9,416,082)	6,749,836
Profit / (Loss) for the year		**(12,258,857)**	**4,972,860**
Other Comprehensive Income			
Items that may be reclassified to profit or loss:			
Net gain/(loss) foreign currency translation reserve		1,695,621	1,096,322
Income tax related to components of other comprehensive income / (loss)		-	-
Total Comprehensive Income / (Loss) for the year		**(10,563,236)**	**6,069,182**
Profit / (Loss) from continuing operations attributable to ordinary equity owners of the company		(2,842,775)	(1,776,976)
Profit / (Loss) for the period attributable to ordinary equity owners of the company		(12,258,857)	4,972,860
Total Comprehensive Income / (Loss) attributable to ordinary equity owners of the company		(10,563,236)	6,069,182
Basic earnings per share from continuing operations	7	(0.3)	(0.3)
Diluted earnings per share from continuing operations	7	(0.3)	(0.3)
Basic earnings cents per share	7	(1.3)	0.9
Diluted earnings cents per share	7	(1.3)	0.7

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	Consolidated Group	
		2015 $	2014 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	2,849,466	8,439,536
Trade and other receivables	9	249,712	44,801
Assets held for sale	10	3,288,953	9,986,655
Other current assets		44,764	36,737
TOTAL CURRENT ASSETS		**6,432,895**	**18,507,729**
NON-CURRENT ASSETS			
Property, plant and equipment	11	-	10,190
Working Interest	14	1,380,625	-
TOTAL NON-CURRENT ASSETS		**1,380,625**	**10,190**
TOTAL ASSETS		**7,813,520**	**18,517,919**
CURRENT LIABILITIES			
Trade and other payables	15	1,153,874	237,524
Liabilities held for sale	15	166,594	1,738,772
TOTAL CURRENT LIABILITIES		**1,320,468**	**1,976,296**
TOTAL LIABILITIES		**1,320,468**	**1,976,296**
NET ASSETS		**6,493,052**	**16,541,623**
EQUITY			
Issued capital	16	51,848,970	51,348,970
Reserves	17	(450,742)	(2,161,028)
Accumulated losses		(44,905,176)	(32,646,319)
TOTAL EQUITY		**6,493,052**	**16,541,623**

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2015

	Ordinary Share Capital $	Accumulated Losses $	Foreign Currency Translation Reserve $	Options Reserve $	Total $
Consolidated Group					
Balance at 1 January 2014	**46,140,094**	**(37,619,179)**	**(3,622,987)**	**-**	**4,897,928**
Total Comprehensive Profit / (Loss) for the year	**-**	**4,972,860**	**1,096,322**	**-**	**6,069,182**
Transactions with owners in the capacity as owners:					
Shares issued during the year	6,055,629	-	-	-	6,055,629
Share capital raising cost	(846,753)	-	-	159,548	(687,205)
Options issued during the year	-	-	-	206,089	206,089
Balance at 31 December 2014	**51,348,970**	**(32,646,319)**	**(2,526,665)**	**365,637**	**16,541,623**
Total Comprehensive Profit / (Loss) for the year	**-**	**(12,258,857)**	**1,695,621**	**-**	**(10,563,236)**
Transactions with owners in the capacity as owners:					
Shares issued during the year	500,000	-	-	-	500,000
Options issued during the year	-	-	-	14,665	14,665
Balance at 31 December 2015	**51,848,970**	**(44,905,176)**	**(831,044)**	**380,302**	**6,493,052**

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated Group	
		2015 $	2014 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,317,461	2,020,923
Payments to suppliers and employees		(3,036,073)	(2,652,942)
Other receipts		-	552,027
Interest received / (paid)		28,899	(207,029)
Net cash provided by / (used in) operating activities	21(a)	**(689,713)**	**(287,021)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of working interest, property, plant and equipment		99,322	6,822,130
Purchase of property, plant and equipment		(5,732)	-
Payment for working interest		(5,230,640)	(5,154,503)
Net cash provided by / (used in) investing activities		**(5,137,050)**	**1,667,627**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	5,454,513
(Provision of) / Proceeds from borrowings		(200,000)	-
Net cash provided by / (used in) financing activities		**(200,000)**	**5,454,513**
Net increase / (decrease) in cash held		6,026,763	6,835,119
Cash at beginning of financial year		**8,439,536**	**1,556,605**
Effect of exchange rate movement		436,693	47,812
Cash at end of financial year	8	**2,849,466**	**8,439,536**

The above statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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"), Urgent Issues Group Interpretations and the Corporations Act 2001.

This financial report covers the consolidated financial statements and notes of Pryme Energy Limited and controlled entities ('the Company', 'Consolidated Group' or 'Group'). Pryme Energy Limited is a listed public company, incorporated and domiciled in Australia. The Company is a for-profit entity for the purpose of preparing the financial statements.

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. The financial statements and notes also comply with International Financial Reporting Standards.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2015 affected any of the amounts recognised in the current period or any prior period.

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.

Consistent with other oil and gas exploration companies, Pryme raises capital to fund its exploration activities as required. Accordingly the financial report has been prepared on a going concern basis in the belief that the Company will realise its assets and settle its liabilities in the normal course of business for at least the amount stated in the financial report. The ability of the Company to continue as a going concern and meet its debts and commitments as they fall due is dependent upon the Company securing sufficient capital which may be in the form of (or some combination of) the following:

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

The directors believe that the Company will be successful in securing sufficient capital and accordingly have prepared the report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 31 December 2015. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Accounting Policies

(a) Principles of Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. 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 12 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 are consistent with those adopted by the parent entity.

Joint Arrangements

Under AASB 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.

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.

The Group recognises its proportionate interest in the assets, liabilities, revenues and expenses of joint operations within each applicable line item of the financial statements. Details of the Group's joint operations are set out in Note 13.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(b) Income Tax

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

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

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

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

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

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 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.

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%
Other Equipment	20%

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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.

Each area of interest is limited to a size related to a known or probable petroleum resource. Currently the Group operates in multiple areas of interest in the State of Louisiana, Texas and Mississippi and areas of interest are generally defined by lease boundaries.

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 equipment and facilities, waste removal, and rehabilitation of the site in accordance with clauses of the petroleum 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 property plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership 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 on a straight line basis over the period of the lease.

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

(f) Financial Instruments

Recognition and Initial Measurement

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

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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. They are included in current assets except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

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.

(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 carrying value of the asset. Any excess of the carrying value of the asset 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) 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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.

(i) Employee Benefits

Short term obligations

Liabilities for salary and wages, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits.

Long term obligations

Liabilities for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of estimated future cash outflows to be made for those benefits. The obligations are presented as current liabilities if there is not an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

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.

(j) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are included in current liabilities except for those with maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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

Revenue is measured at the fair value of the consideration received or receivable. Amounts received are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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. The group recognises revenue when it can be reliably measured and it is probable that future economic benefits will flow to the entity.

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) EPS

(i) Basic earnings per share

Basic earnings per share is determined by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the amounts used in determination of basic earnings per share to take in to account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(q) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(r) Trade Receivables

All trade and other debtors are recognised at fair value. Collectability is reviewed on an ongoing basis. A provision for doubtful debts is made where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. The amount of any provision is recognised in the income statement. Trade receivables are due for settlement no more than 30-60 days from the date of recognition.

(s) Trade Payables

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are included in current liabilities except for those with maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

(t) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of acquisition as part of the purchase consideration.

Critical Accounting Estimates and Assumptions

The directors evaluate estimates and assumptions 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.

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 and fair value less cost to sell calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Exploration expenditure for each area of interest is carried forward as an asset based on the provisions in AASB 6 Exploration for and Evaluation of Mineral Resources. Exploration expenditure which fails to meet at least one of the conditions outlined in AASB 6 is written off. Expenditure is not carried forward in respect of any area of interest unless the Company's rights of tenure to that area of interest are current. The ultimate recoupment of exploration and evaluation expenditure is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area.

Restoration Obligations

The Company estimates the future removal costs of production facilities and wells at the time of installation of the assets. In most instances, restoration occurs many years in to the future. This requires assumptions regarding removal date, future environmental legislation, methodology for estimating costs and specific discount rates to determine the present value of these cash flows.

Reserves Estimates

Estimates of proven and probable oil and gas reserves require interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reserves can impact asset carrying values, provisions for restoration and the recognition of any deferred tax assets due to changes in expected future cash flows. Reserve estimates are prepared based on standard definitions set out by the Society of Petroleum Engineers, Petroleum Resources Management System, 2007 for all reserves classifications by an independent and appropriately qualified reserve engineer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 *Financial Instruments* (effective for annual reporting periods beginning on or after 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the Group does not have any such liabilities. The Group currently does not have any hedging arrangements.

Amendments to AASB 11 *Accounting for Acquisitions in Joint Operations* (effective 1 January 2016)

In August 2014, the IASB made limited scope amendments to AASB 11 Joint arrangements to explicitly address the accounting for the acquisition of an interest in a join operation. The amendments require the investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments apply from 1 January 2016 and will therefore not affect any of the amounts currently recognised in the financial statements.

Revenue *from Contracts with Customers* (effective 1 January 2017)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer with the notion of control replacing the existing notion of risks and rewards. The group has not yet considered the effect of the new rules on its revenue recognition policies. The Group intends to apply the amendment from 1 January 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3: REVENUE, EXPENDITURE AND DISCONTINUED OPERATIONS

	Consolidated Group	
	2015	2014
	$	$
The following revenue items are relevant in explaining the financial performance for the year:		
Oil and Gas revenue – continuing operations	-	-
Interest	29,261	31,028
Total Revenue continuing operations	**29,261**	**31,028**
Oil and Gas revenue – discontinued operations	2,331,473	1,750,145
Total Revenue for the year	**2,360,734**	**1,781,173**
Other income – bankruptcy settlement proceeds*	-	295,536
Total Other Income	**-**	**295,536**

* *In 2010 a third party operator of Pryme's Four Rivers project filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. This amount represents bankruptcy settlement proceeds received by Pryme during the 2014 year.*

DISCONTINUED OPERATIONS

Raven

As announced to the ASX on 12 November 2014 the Company sold its interest in the Raven project. Financial information relating to the discontinued operation is set out below. During the 2015 year, additional sale consideration was received following positive resolution of certain outstanding title defects/lease issues.

	Consolidated Group	
	2015	2014
	$	$
Revenue	-	147,742
Expenses	-	(111,159)
Profit / (Loss) before income tax	**-**	**36,583**
Income tax expense	-	-
Profit / (Loss) after income tax	**-**	**36,583**
Gain on sale attributable to discontinued operation	99,322	6,247,911
Total Profit/(Loss) for the period attributable to discontinued operation	**99,322**	**6,284,494**
Net cash inflow / (outflow) from operations	-	63,768
Net cash inflow / (outflow) from investing	99,322	6,822,130
Net cash inflow / (outflow) from financing	-	-
Net increase / (decrease) in cash	**99,322**	**6,885,898**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Turner Bayou

During the 2014 year, pursuant to the terms of the non-recourse Term Facility, it was agreed with Macquarie Bank that the Company's portion of net operating cash flows of the Turner Bayou project would be applied to the non-recourse debt obligations under the facility including any interest. There is no financial information relating to the discontinued operations in Turner Bayou for the 2015 year and the financial information related to this discontinued operation is shown below only for comparative purposes:

	Consolidated Group	
	2015	2014
	$	$
Revenue	-	653,888
Other income*	-	219,158
Expenses	-	(827,346)
Profit / (Loss) before income tax	-	45,700
Income tax expense	-	-
Profit / (Loss) after income tax	-	45,700
Gain on sale attributable to discontinued operation	-	115,222
Total Profit/(Loss) for the period	**-**	**160,922**
Net cash inflow / (outflow) from operations	-	429,142
Net cash inflow / (outflow) from investing	-	(1,300,132)
Net cash inflow / (outflow) from financing	-	(64,959)
Net increase / (decrease) in cash	**-**	**(935,949)**

* *During the 2014 year, the Company entered into a purchase and sale agreement related to the Turner Bayou assets. As the sale did not proceed, the Company retained the non refundable deposit of $219,158 paid by the prospective purchaser.*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Four Rivers/Capitola – Discontinuing Operations: Held for Sale

As at 31 December 2015, the Capitola and Four Rivers projects were held for sale. Financial information relating to the discontinuing operations for these projects is set out below including the financial performance for the year ended 31 December 2014 which has been restated as from discontinuing operations for comparability purposes:

	Consolidated Group	
	2015	**2014**
	$	**$**
Revenue	2,331,472	948,515
Production Expenses	(884,263)	(331,893)
Depletion, Depreciation and Amortisation	(2,403,417)	(312,201)
Exploration Write offs / Impairment	(8,559,196)	-
Profit / (Loss) attributable to discontinued operations	**(9,515,404)**	**304,421**
Income tax expense	-	-
Profit / (Loss) after income tax	**(9,515,404)**	**304,421**
Net cash inflow / (outflow) from operations	1,143,965	602,457
Net cash inflow / (outflow) from investing	(5,230,639)	(3,854,371)
Net cash inflow / (outflow) from financing	-	-
Net increase / (decrease) in cash	**(4,086,674)**	**(3,251,914)**

The carrying amounts of assets and liabilities held for sale are as follows:

	Consolidated Group	
	2015	**2014**
	$	**$**
Trade Receivables	151,537	625,571
Working Interest	3,137,416	9,361,084
Trade Payables	(42,577)	(1,662,460)
Provisions	(124,017)	(76,312)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 4: INCOME TAX EXPENSE

	Consolidated Group	
	2015	2014
	$	$
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% (2014: 30%)		
— consolidated group	(3,677,657)	1,491,858
Add:		
— Non-allowable items	3,330,726	102,828
— Share options expensed during year	4,399	-
Less:		
— Tax deductible equity raising costs	(52,263)	(63,133)
— Other deductible amounts	(1,151,477)	(636,196)
	(1,546,272)	(895,357)
Current year tax losses not recognised	1,546,272	895,357
Income tax expense	-	-
The applicable weighted average effective tax rates are as follows:	0%	0%
b. Net deferred tax assets not brought to account:		
Unused tax losses for which no deferred tax asset has been recognised	24,931,041	18,573,271
Potential tax benefit at 30%	7,479,312	5,571,981

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Components of Key Management Personnel Compensation

	Consolidated Group	
	2015	2014
	$	$
Short-term benefits	884,630	886,149
Post-employment benefits	682,634	22,784
Equity based payments – options	11,732	-
	1,578,996	908,933

Detailed remuneration disclosures are provided in the Remuneration Report section of the Directors' Report.

During the year the Company provided a loan of $200,000 to Mr Justin Pettett to cover part of a tax liability arising out of an employee option scheme with the Company. The loan is on commercial terms, including interest payable at 5.65%. The loan is repayable in full 2 years from the date of the advance. Subsequent to balance date and pursuant to the Redundancy Deed of Settlement with Justin Pettett effective 1 January 2016, the loan was repaid in full.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group	
	2015	2014
	$	$
Remuneration of the auditor of the Group for:		
PricewaterhouseCoopers		
— auditing or reviewing the financial report	78,270	80,000
— taxation services	8,027	5,610
	86,297	85,610

NOTE 7: EARNINGS PER SHARE

		Consolidated Group	
		2015	2014
		$	$
a.	Reconciliation of earnings to profit or loss		
	Profit/(Loss) for the year	(12,258,857)	4,972,860
	Earnings used to calculate basic EPS	(12,258,857)	4,972,860
		Number	Number
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	957,791,356	558,071,673
	Weighted average number of options outstanding	458,775,561	191,193,551
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	1,416,566,917	749,265,224

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2015	2014
	$	$
Cash at bank and in hand	2,419,790	6,247,224
Short-term bank deposits	429,676	2,192,312
	2,849,466	**8,439,536**

The effective interest rate on short-term bank deposits was 1.74% (2014: 2.02%).

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	2,849,466	8,439,536
	2,849,466	**8,439,536**

NOTE 9: TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2015	2014
	$	$
CURRENT		
Other receivables:		
— GST receivable	12,236	14,149
— Operating bond/deposits	37,476	30,652
— Director loan	200,000	-
	249,712	**44,801**

During the year the Company provided a loan of $200,000 to Mr Justin Pettett to cover part of a tax liability arising out of an employee option scheme with the Company. The loan is on commercial terms, including interest payable at 5.65%. The loan is repayable in full 2 years from the date of the advance. Subsequent to balance date and pursuant to the Redundancy Deed of Settlement with Justin Pettett effective 1 January 2016, the loan was repaid in full. There are no balances past due.

NOTE 10: ASSETS HELD FOR SALE

	Consolidated Group	
	2015	2014
	$	$
Working Interest: Capitola	2,882,023	5,255,479
Working Interest: Four Rivers	255,393	4,105,605
Trade and other receivables	151,537	625,571
	3,288,953	9,986,654

As at 31 December 2015, both the Four Rivers project assets and Capitola project assets were reclassified to held for sale and valued at the Company's best estimate of fair value of the assets less cost to sell. The market valuations reflect prevailing low commodity pricing and take in to account non binding letters of intent received in relation to the assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2015	2014
	$	$
PLANT AND EQUIPMENT		
Office Equipment:		
At cost	5,668	14,360
Accumulated depreciation	(5,668)	(10,770)
	-	3,590
Other Equipment:		
At cost	34,256	30,652
Accumulated depreciation	(34,256)	(24,052)
	-	6,600
TOTAL		
At cost	39,924	45,012
Accumulated depreciation	(39,924)	(34,822)
	-	10,190

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	Other Equipment	Total
	$	$	$
Consolidated Group:			
Balance at 1 January 2014	9,779	16,849	26,628
Foreign currency movement	-	290	290
Additions	-	-	-
Disposals	-	-	-
Depreciation expense	(6,189)	(10,539)	(16,728)
Balance at 31 December 2014	**3,590**	**6,600**	**10,190**
Foreign currency movement	31	598	629
Additions	19,698	-	19,698
Disposals	(15,936)	-	(15,936)
Depreciation expense	(7,383)	(7,198)	(14,581)
Balance at 31 December 2015	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 12: CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest (%)*	
		2015	**2014**
Subsidiaries of Pryme Energy 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%
- TOC LLC	US	100%	100%
- Trimissco LLC **	US	100%	-

** Percentage of voting power is in proportion to ownership*
*** Incorporated 2015*

NOTE 13: INTERESTS IN JOINT ARRANGEMENTS

Set out below are the jointly controlled arrangements of the group as at 31 December 2015 for the purpose of oil and gas exploration and production. The arrangements are classified as a joint operations as, under the relevant join operating agreements, the group has a direct right to its proportionate share of the jointly held assets, liabilities, revenues and expenses as described in note 1(a).

The principal place of business and the Group's proportionate working interest in the assets, liabilities, revenues and expenses of the Group's joint operations held under the applicable joint operating agreements are recognised within each applicable line item of the financial statements. The percentage working interest in particular wells varies across projects as indicated.

Name of Project	Note	Place of Business	Working Interest (%)	
			2015	**2014**
Four Rivers	(a)	US	8-25%	8-25%
Capitola	(b)	US	25-37.5%	30-45%
Newkirk	(c)	US	50%	-

(a) Subsequent to balance date, the Company disposed of its interest in the Four Rivers project effective 1 January 2016 (see Note 22).

(b) The Company acquired its entitlement to a working interest in the Capitola project under an agreement entered into in February 2014. The current working interest reflects the actual working interest acquired under the relevant earn in provisions of the farmout agreement. As per Note 22, on 2nd March 2016, the Company sold its working interest in Capitola effective 1 January 2016.

(c) The Company acquired its working interest in the Newkirk project under an agreement entered into effective 1 July 2015.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14: WORKING INTEREST

	Note	Consolidated Group 2015 $	Consolidated Group 2014 $
Exploration Expenditure Capitalised:			
- Exploration and evaluation phases		5,873,346	3,982,985
- Less reclassification to production phase		(4,240,237)	-
- Less Turner Bayou discontinuing operation	3	-	(3,982,985)
- Add Capitola project expenditure		-	5,255,479
- Less Impairment Capitola		(1,633,110)	-
- Add Newkirk project		1,380,625	-
Production phase:		8,257,040	15,541,527
- Add reclassification from exploration phase		4,240,237	-
- Less accumulated depletion		(2,433,774)	(6,674,534)
- Less impairment Capitola and Four Rivers		(6,926,086)	-
- Less Turner Bayou discontinued operation	3	-	(4,114,948)
- Less Raven discontinued operation	3	-	(646,440)
- Less Capitola and Four Rivers transferred to held for sale		(3,137,416)	-
TOTAL WORKING INTEREST		**1,380,625**	**9,361,084**

Exploration expenditure capitalised during the 2014 and 2015 years relates primarily to the Capitola project which comprises 9,333 mineral acres located in an active region of the Cline Shale resource play in the Eastern Shelf of the Permian Basin, Texas USA. Under the terms of the Capitola Oil Project Farmout Agreement (as amended), the Company earned the right to drill up to 5 wells in the project. As a result of drilling the first 4 wells (3 as at 31 December 2014 and an additional well during 2015), the Company has earned a 37.5% working interest in all mineral rights from surface to the top of the Cline Shale (the Shallow Rights) and a 25% working interest in all other rights including the Cline Shale (the Deep Rights).

In addition, effective 1 July 2015 the Company acquired an interest in the Newkirk project from ASX-listed Raya Group Limited (ASX:RYG) (Raya). Initial consideration for the acreage acquired comprised 100 million fully paid Pryme shares and A$250,000 cash. In addition, further conditional consideration of A$175,000 will be payable in respect of each of the first two wells in the event the gross 1P reserves from each well is certified, within 6 months after the commencement of production from the second well, to be equal to or greater than 31 thousand barrels of oil (Mbo) and 200 million cubic feet of natural gas (MMcf).

Included in the loss attributable to discontinued operations is an impairment charge of $8,559,196 of which $709,796 was recorded at 30 June 2015 in relation to the Four Rivers project reflecting the impact of a review of the economic recoverability of behind pipe reserves in the project and the impact of current low commodity prices. A further impairment of $2,996,347 in relation to the Four Rivers project and $4,853,053 in relation to the Capitola project was recorded at 31 December 2015 on reclassification of the assets to held for sale. The impairments bring the carrying value of the assets to the Company's best estimate of fair value of the assets less cost to sell as at 31 December 2015 based on market valuations reflecting current low commodity pricing.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 15: CURRENT LIABILITIES

	Consolidated Group	
	2015	2014
	$	$
Trade and other payables	1,153,874	237,524
Held for sale	166,594	1,738,772
Total Current Liabilities	**1,320,468**	**1,976,296**

NOTE 16: ISSUED CAPITAL

	Consolidated Group	
	2015	2014
	$	$
1,007,380,397 (2014: 907,380,397) fully paid ordinary shares	55,175,841	54,675,841
Capital raising costs	(3,326,871)	(3,326,871)
	51,848,970	**51,348,970**

a. Ordinary shares	**No. of Shares**	**No. of Shares**
At the beginning of reporting period	907,380,397	289,708,568
Shares issued during the year		
— 14 March 2014	-	6,000,000
— 16 April 2014	-	47,345,422
— 4 June 2014	-	1,400,000
— 23 July 2014	-	94,086,255
— 28 July 2014	-	339,500,157
— 6 August 2014	-	12,659,010
— 10 September 2014	-	116,680,985
— 1 July 2015	100,000,000	-
At reporting date	**1,007,380,397**	**907,380,397**

As announced to the ASX, effective 1 July 2015 the Company acquired from ASX-listed Raya Group Limited (ASX:RYG) (Raya) 2,320 net acres in an oil rich region of the Mississippian Lime in Oklahoma. Initial consideration for the acreage acquired from ASX-listed Raya Group Limited (ASX: RYG) (Raya) comprised 100 million fully paid Pryme shares and A$250,000 cash.

As announced to the ASX on 11 February 2014, the Company agreed to issue 6,000,000 shares at $0.02 as part consideration of the acquisition of the Capitola project. In addition, during the period ending 30 June 2014 the Company issued 2,500,000 shares at $0.02 in lieu of lead manager fees in relation to the Rights Issue completed and announced to ASX on 16 April 2014. Under the Rights Issue, an additional 46,245,422 shares were issued at $0.02.

As announced to the ASX on 22 July 2014, the Company completed an Adjusting Offer and a Renounceable Rights Issue. As a result of the Rights Issue and the Adjusting Offer announced via the prospectus lodged with the ASX on 30 June 2014, and subsequent to shareholder approval at the Extraordinary General Meeting held on 06 August 2014, the Company issued total additional shares of 446,245,422. 116,680,985 shortfall shares from the Rights Issue announced on 30 June 2014 were placed on 10 September 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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**	
	Number of Options 2015	**Number of Options 2014**
2 cent options		
— At the beginning of the period	458,340,516	-
— Add 2 cent options issued 6 August 2014	-	400,000,023
— Add 2 cent options issued 10 September 2014	-	58,340,493
— Add 2 cent options issued 24 December 2015 September 2014	22,684,510	-
Total 2 cent options	**481,025,026**	**458,340,516**

As a result of the Rights Issue and the Adjusting Offer announced via the prospectus lodged with the ASX on 30 June 2014, and subsequent to shareholder approval at the Extraordinary General Meeting held on 06 August 2014, the Company issued 400,000,023 $0.02 options with an expiry date of 23 July 2016. On 10 September the Company issued an additional 58,340,493 $0.02 options attached to the shortfall shares placed. The options have an expiry date of 26 July 2016.

In 2014, an additional 90,738,040 unlisted options were conditionally approved to employees of the Company subject to the achievement of certain performance conditions related to the Capitola project. During the 2015 year, 22,684,510 of these options vested pursuant to achievement of Tranche 2 of the performance criteria (see Remuneration Report section of the Directors' Report).

Capital risk management

The Group's objectives when managing capital are to safeguard their ability to fund operations and continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital comprises equity as described in the statement of financial position. There are no externally imposed capital requirements. Management monitors the group's capital by assessing financial risks and adjusting its capital structure in response to changes to these risks in the market. Responses to these changes include management of share issues.

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 recognises the value of options issued as described in Note 16 (b) which have not been exercised.

	Consolidated Group	
	2015	**2014**
	$	**$**
Foreign Currency Translation Reserve	(831,044)	(2,526,665)
Option Reserve	380,302	365,637
	(450,742)	**(2,161,028)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 18: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	2015	2014
	$	$
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	39,317	7,696
— between 12 months and 5 years	-	-
— greater than 5 years	-	-
	39,317	7,696
b. Capital Expenditure Commitments contracted for		
Expenditure on working interest	-	446,854
	-	446,854
Payable:		
— not later than 12 months	-	446,854
— between 12 months and 5 years	-	-
— greater than 5 years	-	-
	-	446,854

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2015 (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 20: SEGMENT REPORTING

	Australia	United States of America	Eliminations	Total
2015	**$**	**$**	**$**	**$**
Income				
Intercompany Management Fee	1,915,970	-	(1,915,970)	-
Other	28,899	5,406,674	(5,406,312)	29,261
Expenditure				
Depletion, Depreciation and Exploration Expenditure Written Off	(2,860)	(11,722)	-	(14,582)
Employee Related Expenses	(561,902)	(26,854)	-	(588,756)
Intercompany Management Fee	-	(1,915,970)	1,915,970	-
Intercompany Loan impairment	(13,805,300)	-	13,805,300	-
Other	(1,298,994)	(969,704)	-	(2,268,698)
Segment result	**(13,724,187)**	**2,482,424**	**8,398,988**	**(2,842,775)**
(Profit)/Loss attributable to discontinued operations	-	(9,416,082)	-	(9,416,082)
Reconciliation to Profit/(Loss)	**(13,724,187)**	**(6,933,658)**	**8,398,988**	**(12,258,857)**
Assets	7,723,554	7,058,123	(6,968,157)	7,813,520
Liabilities	830,048	52,088,840	(51,598,420)	1,320,468

	Australia	United States of America	Eliminations	Total
2014	**$**	**$**	**$**	**$**
Income				
Intercompany Management Fee	1,336,419	-	(1,336,419)	-
Other	30,425	4,539,701	(4,243,562)	326,564
Expenditure				
Depletion, Depreciation and Exploration Expenditure Written Off	(3,620)	(18,884)	-	(22,504)
Employee Related Expenses	(738,386)	(210,660)	-	(949,046)
Intercompany Management Fee	-	(1,336,419)	1,336,419	-
Other	(615,181)	(516,809)	-	(1,131,990)
Segment result	**9,657**	**2,456,929**	**(4,243,562)**	**(1,776,976)**
(Profit)/Loss attributable to discontinued operations	-	6,749,836	-	6,749,836
Reconciliation to Profit/(Loss)	**9,657**	**9,206,765**	**(4,243,562)**	**4,972,860**
Assets	20,324,954	16,294,627	(18,101,662)	18,517,919
Liabilities	221,926	50,681,010	(48,926,640)	1,976,296

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 21: CASH FLOW INFORMATION

		Consolidated Group	
		2015	2014
		$	$
a.	**Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax**		
	Profit/(Loss) after income tax	(12,258,857)	4,972,860
	Non-cash flows in profit		
	Depreciation, depletion and amortisation	2,417,999	583,230
	(Gain)/Loss on sale of assets	(94,374)	(6,363,132)
	Employee share options	14,665	-
	Impairment and project costs expensed	8,625,526	-
	Interest accrued	-	126,183
	Changes in assets and liabilities		
	(Increase)/decrease in trade and term receivables	421,423	(32,869)
	(Increase)/decrease in prepayments	(19,058)	(3,505)
	Increase/(decrease) in trade payables and accruals	202,963	430,212
	Cashflow from (used in) operations	**(689,713)**	**287,021**

b. Credit Standby Arrangements with Banks

There are no credit or standby arrangements with financiers as at 31 December 2015 (2014: Nil).

NOTE 22: EVENTS AFTER BALANCE SHEET DATE

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

As announced to the ASX on 12 January 2016, Mr Stephen Mitchell, Mr Ray Shorrocks and Mr Donald Beard were appointed as Non-Executive Directors of the Company and Mr Justin Pettett and Mr Ryan Messer resigned as Directors of the Company. As further announced on 4 February 2016, Mr Stephen Mitchell was appointed Executive Chairman of the Board and Mr Daniel Lanskey resigned from the Board.

During the year to 31 December 2015, an impairment charge of $3.7 million was recognised in relation to the Four Rivers project following a review of the project which demonstrated that it had no material upside and that many of the wells were not economic. In February 2016, the Four Rivers Project assets were sold with an effective date of 1 January 2016 for US$120,000, an amount equal to the carrying value of the asset (post impairment) as at 31 December 2015.

During the year to 31 December 2015, an impairment of $4.9m was recognised in relation to Capitola Project. On 2nd March 2016, the project was sold with an effective date of 1 January 2016 for US$2.2m, an amount equal to the carrying value of the asset (post impairment) as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 23: RELATED PARTY TRANSACTIONS

	Consolidated Group	
	2015	2014
	$	$
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	215,119	3,753

Amounts totalling $3,461 (2014: $3,753) were paid to associates of Mr J Pettett for graphic design related services.

During the year the Company provided a loan of $200,000 (2014: Nil) (see Note 5) to Mr Justin Pettett to cover part of a tax liability arising out of an employee option scheme with the Company. The loan is on commercial terms, including interest payable at 5.65%. The loan is repayable in full 2 years from the date of the advance. Subsequent to balance date and pursuant to the Redundancy Deed of Settlement with Justin Pettett effective 1 January 2016, the loan was repaid in full.

During the year, the Company paid consulting fees of $11,658 (2014: Nil) to Mr Daniel Lanskey for services in relation to the Newkirk project.

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

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 interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest Rate Risk

The Company has no exposure to interest rate risk as the Company has no debt.

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 presentation currency. The group considers there to be immaterial risk exposure from these transactions. The group is also exposed to fluctuations in foreign currencies arising from the loans advanced by the Australian based parent entity (denominated in AUD) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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. Receivables are held with predominantly un-rated entities.

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.

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.

	Average Interest Rate	Variable Interest Rate $	Non Interest Bearing Less than 90 Days $	Total $
2015 CONSOLIDATED				
Financial Assets:				
Cash and cash equivalents	1.74%	540,076	2,309,390	2,849,466
Receivables	-	-	401,249	401,249
Financial Liabilities:				
Trade and sundry payables	-	-	(1,196,451)	(1,196,451)
Total		**540,076**	**1,514,188**	**2,054,264**
2014 CONSOLIDATED				
Financial Assets:				
Cash and cash equivalents	2.02%	2,203,254	6,236,282	8,439,536
Receivables	-	-	670,372	670,372
Financial Liabilities:				
Trade and sundry payables	-	-	(1,749,672)	(1,749,672)
Total		**2,203,254**	**5,156,982**	**7,360,236**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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. Where the loan is repayable within one year the cashflows are undiscounted and approximate fair 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.

NOTE 25: PARENT INFORMATION

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

STATEMENT OF COMPREHENSIVE INCOME	Parent Entity	
	2015	2014
	$	$
Total Profit/(Loss)	(13,724,187)	9,657
Total Comprehensive Income	(13,724,187)	9,657

STATEMENT OF FINANCIAL POSITION	2015	2014
	$	$
ASSETS		
Current Assets	755,398	2,220,431
Non Current Assets	6,968,156	18,104,523
TOTAL ASSETS	7,723,554	20,324,954
LIABILITIES		
Current Liabilities	830,048	221,926
TOTAL LIABILITIES	830,048	221,926
EQUITY		
Issued capital	51,848,970	51,348,970
Reserves	380,302	365,637
Accumulated losses	(45,335,766)	(31,611,579)
TOTAL EQUITY	6,893,506	20,103,028

The total loss of $13,724,187 includes a provision of $13,805,300 against the intercompany loan with the parents' 100% owned US subsidiary. The intercompany loan is eliminated on consolidation and therefore has no effect on the financial statements of the group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26: COMPANY DETAILS

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

Pryme Energy Limited
Level 6, 412 Collins Street
Melbourne VIC 3000

The principal place of business of the US subsidiaries is:

Pryme Oil and Gas Inc
3500 Washington Ave, Suite 200
Houston, Texas, 77007
United States of America

Directors' Declaration

1. In the opinion of the Directors of Pryme Energy Limited (Pryme):

   (a) the Financial Statements and Notes as set out on pages 26 to 55 are in accordance with the Corporations Act 2001, including:

      i. complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements; and

      ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance as represented by the results of its operations and its cash flows for the year ended on that date; and

   (b) the remuneration disclosures that are included on pages 20 to 23 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 2015.

Signed in accordance with a Resolution of the Directors:

Stephen Mitchell
Chairman

Melbourne, Victoria.
11 March 2015

Independent Auditor's Report

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

Report on the financial report

We have audited the accompanying financial report of Pryme Energy Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income , consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Pryme Energy Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation 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 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 consolidated 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*.

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Independent Auditor’s Report (cont.)

Auditor’s opinion

In our opinion:

(a) the financial report of Pryme Energy Limited is in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages xxx to xxx of the directors’ report for the year ended 31 December 2015. 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 Energy Limited for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Simon Neill
Partner

Brisbane
11 March 2016

Shareholder Information

SHAREHOLDER INFORMATION AS AT 16 FEBRUARY 2016

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

1. Substantial shareholders

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

Fully paid Ordinary Shares

Name	Number	%
Equity Trustees Limited ACF Lowell Resources Fund[1]	57,000,000	5.6582
GXB Pty Ltd/G&J Super Fund Pty Ltd[2]	60,000,000	5.95

1 *As notified on 28 October 2015*
2 *As notified on 3 December 2015*

2. Number of security holders and securities on issue

Pryme has issued the following equity securities:

- 1,007,380,397 fully paid ordinary shares held by 1,439 shareholders;
- 481,025,026 $0.02 listed options held by 246 option holders;
- 13,610,706 $0.02 unlisted Management Options held by 1 option holder.

3. Voting rights

Ordinary shares

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

Listed Options and Unlisted Management Options

The holders of Listed Options and Unlisted Management Options do not have any voting rights on the Listed Options and Unlisted Management Options held by them.

4. Distribution of security holders

Quoted securities

(a) Fully paid ordinary shares

Category	Fully paid Ordinary shares		
	Holders	Shares	%
1 – 1,000	71	28,980	0.00
1,001 – 5,000	179	552,898	0.06
5,001 – 10,000	203	1,737,339	0.17
10,001 – 100,000	538	21,724,848	2.16
100,001 and over	448	983,336,332	97.31
Total	**1,439**	**1,007,380,397**	**100.00**

Shareholder Information (cont.)

(b) $0.02 Listed Options

Category	$0.02 Listed Options expiring 23 July 2016		
	Holders	Listed Options	%
1 – 1,000	1	450	0.00
1,001 – 5,000	22	58,479	0.01
5,001 – 10,000	15	109,365	0.02
10,001 – 100,000	56	2,060,995	0.43
100,001 and over	152	478,795,737	99.54
Total	**246**	**481,025,026**	**100.00**

Unquoted securities

Management Options

Category	$0.02 Unlisted Management Options		
	Holders	Unlisted Management Options	%
1 – 1,000	0	0	0.00
1,001 – 5,000	0	0	0.00
5,001 – 10,000	0	0	0.00
10,001 – 100,000	0	0	0.00
100,001 and over	1	13,610,706	100.00
Total	**1**	**13,610,706**	**100.00**

5. Unmarketable parcel of shares

The number of shareholders holders holding less than a marketable parcel of ordinary shares is 1,028. 125,000 shares comprise a marketable parcel at the Pryme closing share price of $0.004.

The number of option holders holding less than a marketable parcel of $0.02 Listed Options is 133. 500,000 Listed Options comprise a marketable parcel at the Pryme closing options price of $0.001.

6. Unquoted securities

13,610,706 $0.02 Unlisted Management Options have been issued to one holder and remain unvested and unexercised. Details of holders of 20% or more of the Unlisted Management Options are as follows:

Name	No. of $0.02 Unlisted Management Options	%
Sandra Gaffney	13,610,706	100

7. On market buy-back

There is no current on market buy-back.

Shareholder Information (cont.)

8. Twenty largest shareholders of quoted equity securities

(a) Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

Name		No. of shares	%
1	Equity Trustees Limited <Lowell Resources Fund A/C>	66,323,719	6.58
2	Wheelbarrow Investments Pty Ltd <William Burrell Family A/C>	47,009,988	4.67
3.	Buderim Panorama Pty Ltd <Buderim Panorama A/C>	39,644,920	3.94
4	G&J Super Fund Pty Ltd < G& J Superfund A/C>	39,000,000	3.87
5	Bond Street Custodians Limited <WIMPL – V21664 A/C>	30,000,000	2.98
6	GXB Pty Ltd	30,000,000	2.98
7	Mr Grant James Prince	19,887,866	1.98
8	Jojeto Pty Ltd <Lloyd Super Fund A/C>	16,251,432	1.61
9	Mawallok Pastoral Company Pty Ltd	16,250,000	1.61
10	GHJC Pty Limited	15,637,567	1.55
11	Forstu Pty Ltd <Barlow Superfund A/C>	15,000,000	1.49
12	Mrs Jaclyn Stojanovski + Mr Chris Retzos + Mrs Susie Retzos < Retzos Executive S/F A/C>	14,853,132	1.47
13	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	14,751,076	1.46
14	Mr Stephen Peter Mitchell + Mrs Serena Claire Mitchell <SP Mitchell Super Fund A/C>	12,250,000	1.22
15	Chembank Pty Limited <R T Unit A/C>	12,000,000	1.19
16	Anthony Rispoli	11,045,394	1.10
17	BNP Paribas Nominees Pty Ltd < BNP Paribas LDN UK BCH DRP>	11,000,000	1.09
18	Mr John Charles Holms Clark + Mrs Rebecca Katrina Clark	10,000,000	0.99
19	Mr Craig MacBride	10,000,000	0.99
20	Yelbor Investments Pty Limited	9,598,752	0.95
Total for Top 20		**440,503,846**	**43.73**

Shareholder Information (cont.)

(b) $0.02 Listed Options

Details of the 20 largest option holders by registered holding are:

Name		No. of shares	%
1	BNP Paribas Nominees Pty Ltd < BNP Paribas LDN UK BCH DRP>	34,580,006	7.19
2	Ms Sihol Marito Gultom	20,056,377	4.17
3.	Propel Holdings Pty Ltd	20,000,020	4.16
4	Emmanuel Marie Anthony Carrabin	20,000,000	4.16
5	Jaclyn Stojanovski +Chris Retzos + Susie Retzos <Retzos Executive S/F A/C>	16,176,566	3.36
6	Bond Street Custodians Pty Limited <Willow –V21664 A/C>	15,000,000	3.12
7	Kobia Holdings Pty Ltd	15,000,000	3.12
8	Peter Andrew Proksa	15,000,000	3.12
9	Grant James Prince	14,943,934	3.11
10	Colbern Fiduciary Nominees Pty Ltd	10,537,879	2.19
11	Tarecq Aldaoud	10,000,000	2.08
12	Castle Bailey Pty Ltd <D&S Bailey Family A/C>	10,000,000	2.08
13	Mark John Bahen + Margaret Patricia Bahen <Superannuation Account>	9,895,002	2.06
14	Blu Bone Pty Ltd	9,895,002	2.06
15	Forstu Pty Ltd <Barlow Superfund A/C>	9,752,500	2.03
16	ASC Resources Ltd	9,243,752	1.92
17	Mr Timothy Ryan Messer	9,073,804	1.89
18	Justin Pettett	9,073,804	1.89
19	Mr John Charles Vassallo + Mr Sean James Vassallo <Vassallo Family S/F A/C)>	8,000,000	1.66
20	Merrill Lynch (Australia) Nominees Pty Limited	7,395,002	1.54
Total for Top 20		**273,623648**	**56.88**

Corporate Directory

Directors
Mr Stephen Mitchell (Executive Chairman)
Mr Ray Shorrocks (Non-Executive Director)
Mr Donald Beard (Non-Executive Director)

Chief Financial Officer
Ms Sandra Gaffney

Company Secretary
Ms Swapna Keskar

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Stock Exchanges
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International OTCQX
Code: POGLY

Australian Company Number
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Australian Business Number
75 117 387 354

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