



ASX Announcement

31 October 2006

## September 2006 Quarterly Activity Report

In accordance with Listing Rule 5.2, Pryme Oil and Gas Limited, an oil and natural gas producer and explorer operating in the U.S., is pleased to report on its activities and those of its wholly owned subsidiary, Pryme Oil and Gas Inc., for the three month quarter ending September 2006.

### Summary and Highlights

- **Additional interest in the LaSalle Parish Project acquired boosts cash flow by 50%**
- **Second successful delineation test drilled in the LaSalle Parish Project**
- **3D seismic shoot begins in Turner Bayou**
- **Raven and Condor Projects underway – the second and third joint venture projects with Wave Exploration Group**
- **Advisory board appointed to bolster company's expansion**
- **\$6.0 million raised to fund Turner Bayou 3D and additional Wave Projects**
- **ADR program up and running in the U.S.A.**
- **Non-executive director appointed**

### LaSalle Parish Project

Development in this project has been steady over the last quarter with the completion of the Shirley SU118 No.2 step out well successfully drilled and producing approximately 20 barrels per day to the 100% working interest. The well continues to produce an unusually high level of associated gas, which is inhibiting its fluid-production capability. This occurs from time to time in the region and sometimes requires weeks or months for the gas to "blow down" and bring the oil production to its optimum level. Once this gas cap has been vented, we expect the well to level out at a higher production rate per day, which is more typical for Wilcox production in this area.

We were fortunate enough to purchase an additional stake in the fields contained within the LaSalle Parish Project having the net effect of increasing our production by 50% which in turn has increased our



net cash flow by approximately 50% depending on oil prices. Net oil produced to Pryme's interest is above 1,600 barrels per month or US\$96,000 per month in revenue using a \$60 per barrel oil price. The additional interest was purchased from Miami-based Anglo Energy Company Inc. on 5 July 2006. The consideration paid was 2,667,000 fully paid shares in Pryme.

The amended working interest for Pryme in the fields within the LaSalle Parish Project is set out below:

<b>Field Name</b>	<b>Existing Interest</b>	<b>Additional Interest</b>	<b>Total Interest</b>	<b>Oil wells</b>
Routh Point Field	10.00%	3.00%	<b>13.00%</b>	8
Northwest Rogers Area	10.00%	11.50%	<b>21.50%</b>	6
Petro Hunt et al Boot Hill Lease	5.00%	15.20%	<b>20.20%</b>	3
Shirley State Area	10.00%	2.40%	<b>12.40%</b>	2
Ward Lease	8.25%	0.00%	<b>8.25%</b>	2
LA Pacific SU65 Ray 2-6SU 56	8.00%	0.00%	<b>8.00%</b>	2

The LaSalle Parish Project production is normally approximately 15,000 barrels of oil per month to the 100% working interest of which Pryme's share of this is set out above. We expect to increase this production rate through development drilling, which is continuing. The first step-out well was drilled on 6 June 2006 in the Shirley State Area called the SU118 No.2. As explained above this well is producing steadily and should increase in production as the gas cap is produced.

The second development well was drilled on 15 September 2006 and was originally called the Coleman No.6, located in the Routh Point Field part of the Project. During the drilling of this well, the drill pipe got stuck resulting in the drill crew having to recover what drill pipe they could, exit the bore hole and skid the rig over 50 feet to re-drill the well. Under the terms of our drilling contract they re-drilled the well for no additional cost. The newly drilled well was re-permitted and is called the Coleman No.7 (See below)

Coleman No.7 well, LaSalle Parish, Louisiana

The well was successfully drilled to a total depth of 4,500 feet (1,371 metres) and encountered shows of oil in eight Wilcox sands, the G-4, G-3, F-2, E-3, C-2, B-4, B-2 and A-2 sands. A core analysis indicated good, commercial permeability and oil saturation in 34 feet of Wilcox sands being the G-4, C-2, B-4, B-2 and A-2. Consequently, the well is being cased for completion in the C-2 sand which is the primary field pay zone. The B-4, B-2 and A-2 zones will be kept as Proved, Undeveloped sands for future re-completion up the hole.



The successful oil shows in the Coleman No.7 opens up another development well location to the northeast to be named the Coleman No.8 in order to test the F-2 sand. The F-2 was found in the Coleman No.7 and it is expected that the No.8 will effectively test the F-2.

We expect to drill four more wells before the end of the year, those being two Northwest Rogers wells, one additional Routh Point well and either a Boot Hill or Shirley field well.

### **Turner Bayou 3-D Seismic Project**

Weems Geophysical of Houston, Texas has been contracted to implement the survey and recover the 3D seismic data in Turner Bayou. The 80 square-mile (51,200 contiguous acres) objective coverage of the project is located in an onshore trend area that is highly prospective for oil and gas at several intervals between 2,000 feet and 16,000 feet. This area is on trend with major producing fields, including BP Plc's Port Hudson and Judge Digby fields, which combined have produced almost 1.5 trillion cubic feet of natural gas.

Work on the project began in late September with topographic surveying. Shot holes are currently being drilled to load the charges that will send sound waves through the ground to be received on the surface after reflection from geological strata. The shoot is on schedule from when the company began the project in April 2006. Pryme is the major shareholder in Turner Bayou with a 52% working interest.

The main oil and gas objectives at different depths are: the Miocene and Frio sands; the Cockfield/Yegua and Sparta sands; Wilcox sands; Austin Chalk and the Tuscaloosa sands. Prospective reserves are in the vicinity of 150-180 billion cubic feet ("Bcf") of natural gas from all intervals combined.

We expect the seismic shoot to continue through to January 2007 with data being processed through January and February 2007 with the interpretation soon after that..

### **Wave Exploration Projects**

As previously discussed, the scope of projects being targeted by Wave include large oil and intermediate natural gas reserve targets confirmed with analogue shows or production, and 2-D or 3-D seismic data. Initially Wave and Pryme have a combined working interest of 100 per cent in each of the prospects until we decide to farm out working interests after retaining an interest for ourselves in each prospect. Three projects have been approved for funding, representing 110BCF of prospective reserves in place based on various 3D seismic and offset or analogue production. A summary of the current Wave Exploration projects is outlined below:



#### Kestrel Prospect, Calcasieu Parish, Louisiana

Kestrel has been fully leased and is currently being marketed to third parties for sale. There has been real interest in this project as indicated by qualified players, and should result in it being sold quickly. A drill rig will be obtained as soon as the project has been funded.

Kestrel has a two well potential and is located on 300 consolidated acres that will be drilled to 13,500 feet, targeting four "Hackberry" natural gas and condensate (oil) sands. Two wells should effectively drain this objective if permeabilities are encountered that are analogous to consolidated sandstones found in the Hackberry in this general area. Prospective reserves could be in the order of 28.5 billion cubic feet (BCF), according to Wave.

#### Raven Prospect, Lincoln Parish, Louisiana

The Raven project covers exploration ground in the prolific Cotton Valley and Hosston natural gas trends in Lincoln Parish, Louisiana.

Prospective gas reserves within the Raven Prospect could be in the order of 43.2 billion cubic feet (BCF), according to Wave. Leasing of the prospect acreage has begun and is expected to be finalised by the end of 2006, with the drilling of the first well scheduled to begin end of first quarter of 2007.

The Raven Prospect exists along a very prolific gas fairway of Cotton Valley marine bars in Lincoln Parish. The prospect is targeting 10,000 foot Cotton Valley sands and is located on approximately 4,000 more-or-less consolidated acres. Pryme anticipates that six to ten wells should be sufficient to effectively drain this objective if permeabilities are encountered that are analogous to consolidated sandstones found in the Cotton Valley area.

#### Condor Prospect, Tuscaloosa Trend, Louisiana

The Condor Prospect is located along the Tuscaloosa Trend in central Louisiana, which in the past eleven years has experienced a resurgence in exploration activity, led by Amoco and now BP Plc. The Condor project area includes multiple Tuscaloosa targets that have historically produced as much as 100 Billion Cubic Feet (Bcf) of gas.

Condor includes lease blocks on two prospects with target depths of 17,500 to 18,000 feet. The first location will target multi-zone, "Proven Undeveloped" reserves and the potential exists to drill for deeper sands that are aggressively being pursued by others on trend. The second location will target a seismic-defined up dip location offsetting a well that has produced in excess of 20 BCF to date.



In addition, the potential exists to pursue deeper exploratory opportunities in the southern portion of the project area. The Judge Digby field, on trend with our objectives, has reported significant discoveries in deeper intervals over the past ten years.

A detailed reservoir study commissioned by Wave has been conducted across the field including seismic interpretation, reservoir net pay mapping, and both engineering and log analysis evaluation by outside consultants. The study concludes that 40 to 90 BCF remain in the existing reservoirs. It is believed that the previous operators failed to produce all of the reserves in the fault block due to perforating multiple zones simultaneously, which meant they were thus unable to recognise the lack of contribution from zones that had "sanded up". This occurs across the trend due to the nature of these highly porous and permeable sands. In the early 1990's, Amoco performed the same type of evaluation on trend in a nearby field resulting in additional infill development.

The Directors and the Advisory Board continue to review opportunities.

### **Advisory Board Appointed**

The board of Pryme has established a technical advisory board to assist the company as it advances its suite of exploration projects. The expertise of the advisory board is in addition to the existing management team's 50 years of energy industry experience, which includes uniquely focused local knowledge in Louisiana, Pryme's key area of operations.

The first members of the board are named below. The composition of the advisory board may change as the company develops in the future.

Donald R. Ellison is Pryme's Advisory Director for Petroleum Engineering. Don holds a degree in Petroleum Engineering from the University Of Missouri School Of Mines. His singular domestic career has involved the engineering management of Lake Pasture Field, the third-largest oil and gas reserve in Texas; two significant oil and gas discoveries in Oklahoma that each have cumulative production of several million barrels of oil and several billion cubic feet of natural gas and a successful gas/condensate resource development project in East Texas.

Outside of the U.S., Ellison was the first U.S. citizen to successfully establish a joint venture for the production of oil and associated gas in the former Soviet Union, when in 1989 he entered into oil resource development accords with Tatneft, the state-owned oil and gas company of the Republic of Tatarstan. His company, Ellison Engineering, conducts reservoir engineering studies, project management of oil and gas drilling, completions and production operations, coalbed methane project consulting, plus thermal and wind power project co-development.



James R. (Jay) Stewart is Pryme's Advisory Director for Geology, Petroleum Land and Environmental Studies. Jay graduated with Honors from the University of Southern Mississippi in 1982. Stewart holds a Bachelor of Science degree in Geology. His accomplishments and areas of activity include Geologist and Petroleum Land and Environmental Affairs Consultant since December 1983 for various companies in Mississippi, Louisiana, Arkansas, Alabama, Kentucky and Texas. For the past 10 years Stewart has utilised his land and geological talent in aggregating considerable wealth for his own account and for the account of others. He has been focused on oil and gas prospect generation in north Louisiana, during which time Stewart also managed the land and mineral leasing rights for two JV partnerships centred in the Wilcox Basin.

Stewart's consulting work has included working with environmental compliance departments in the states of Alabama, Arkansas, Kentucky, Louisiana and Mississippi. He has represented clients in all environmental aspects, including site testing, evaluation, documentation, proposing test methods and remediation plans acceptable to the State.

Craig J. Sceroler has been named to the board as Pryme's Advisory Director for Exploration. He holds a B.S. degree in Geology from the College of Engineering, Louisiana Tech University.

Over the past eighteen years, Craig has generated prospects in the south Louisiana Miocene trend as well as in the central Louisiana Eocene Wilcox trend. In south Louisiana he holds an 80% success rate with oil and gas completions at Coquille Bay, Bastian Bay, Vermillion Block 14 and LaPlace Fields. In central Louisiana, his success rate has been 65%, with oil and gas completions at Nebo-Hemphill, Routh Point, West Catahoula Lake, Catahoula Lake, Trout Creek, Little Creek, Summerville and Lake Curry Fields as well as new field discoveries that include: Bayou Funny Louis, Mack Branch, Big Branch and Routh Creek Fields.

Sceroler's use of subsurface geology (defined as the correlating and mapping of formations identified by logging previous wells) integrated with the geophysics of 2-D and 3-D seismic data, makes it possible for Pryme to reduce its exploration risk and enhances its efforts in seeking more reserves.

### **Private Placement to raise \$6.0 million**

During the past quarter the board of Pryme arranged to place 15,000,000 shares with sophisticated and professional investors both in Australia and overseas in order to raise A\$6.0 million. The shares were placed at \$0.40 per share with two free attaching options for every three shares subscribed exercisable at \$0.40 on or before the 30 June 2008.

The funds raised from the issue will be used to fund the shooting and subsequent processing of 80 square miles (51,200 acres) of 3-D seismic data in Pryme's 3-D seismic Project in South Central Louisiana, named Turner Bayou. In addition, capital raised will be used to fund the ongoing leasing, acquisition and ancillary 2-D and 3-D seismic in the Wave Exploration Joint Venture Projects.



## **ADR program up and running in the U.S.A.**

A major accomplishment during the quarter was the signing of an agreement to have Pryme stock quoted in the United States through an issue of American Depositary Receipts (ADRs) launched through our sponsor Bank of New York.

Pryme received an Information Supplying Exemption (Rule 12g3-2(b)) from the Securities and Exchange Commission to trade the ADRs, which will be quoted on an Over the Counter (OTC) exchange. The company joins Australian oil and gas companies such as Woodside Petroleum Ltd., Santos Ltd. and Petsec Energy Ltd., which all have ADRs quoted on U.S. exchanges.

The ADR program is part of a broader plan to access U.S. financial markets and expand Pryme's shareholder base, which will help to strengthen the company's profile. It is an important step towards the company's objective of listing on more than one of the major U.S. exchanges. Pryme Chairman John Dickinson and Chief Operations Officer Ryan Messer are based in the U.S., along with the majority of Pryme's operational support team and advisory board. This enables the team to promote Pryme more effectively in the company's country of operation.

ADRs are commonly used to allow U.S. investors to buy securities issued by non-U.S. companies. An ADR is created when a broker purchases the company's shares on the company's home stock market and delivers those to the depositary's local custodian bank, which then instructs the depositary bank to issue Depositary Receipts. Depositary Receipts may trade freely, just like any other security, on the U.S. Over-the-Counter (OTC) and other U.S. market exchanges. Under the Information Supplying Exemption, also known as Rule 12g3-2(b), the SEC exempts non-U.S. companies wishing their shares to be traded in the U.S. from the full requirements of periodic SEC reporting. The Rule 12g3-2(b) exemption, can be obtained by those non-U.S. corporations that are not seeking a listing on a U.S. exchange, and are not intending to launch a public offering of their securities in the U.S.

## **Non-executive director appointed**

As Pryme's asset base and shareholder base expands it is important to appoint further independent directors as outlined by the corporations act. We were pleased to announce in this past quarter the appointment of Mr. Philip Judge as a non-executive director of the company. Mr. Judge has been involved in international business for more than 20 years. He is third generation of a family that has had substantial involvement in the commodities and precious metals markets. Mr. Judge has extensive experience having worked, researched, written and lectured on the base and precious metals and commodities markets for more than a decade.

Mr. Judge is a founding director of The Anglo Far-East Company, an international gold and silver trading and custodial company. He has worked as a trustee, investment strategy advisor and researcher with numerous qualified sophisticated investors and private venture capitalists worldwide.



Mr. Judge became involved in the oil and gas industry in 2004 in his capacity as director of the Anglo Energy Company. The Anglo Energy Company is an investment company that specialises in the upstream U.S. oil and gas sector and is comprised of sophisticated professional investors domiciled globally. It owns several strategic oil and gas assets in Oklahoma and Louisiana outside of Pryme and is the second largest shareholder of Pryme.

Mr. Judge brings more than 23 years of business management and promotion skills to the board of Pryme as we venture into the U.S. market. He has personally been involved in the U.S. oil and gas industry for the past four years.

We are excited to have Philip join the board of Pryme. His experience and knowledge base in international business and the broader commodities sector will certainly be an asset to the company.

For further company information please visit our website at [www.prymeoilandgas.com](http://www.prymeoilandgas.com) or contact:

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Pryme Oil and Gas Limited
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ABN

75 117 387 354
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Quarter ended ("current quarter")

30 September 2006
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### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (.9.... months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	333	433
1.2 Payments for (a) exploration and evaluation	(2,486)	(3,267)
(b) development	-	-
(c) production	(213)	(269)
(d) administration	(228)	(588)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(2,591)</b>	<b>(3,683)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects	-	(4,182)
(b)equity investments	-	-
(c) other fixed assets	-	(8)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	(606)	(875)
1.11 Loans repaid by other entities	269	269
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(337)</b>	<b>(4,796)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,928)</b>	<b>(8,479)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,928)	(8,479)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	4,592	11,465
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	<b>Net financing cash flows</b>	4,592	11,465
	<b>Net increase (decrease) in cash held</b>	1,664	2,986
1.20	Cash at beginning of quarter/year to date	1,302	-
1.21	Exchange rate adjustments to item 1.20	(33)	(53)
1.22	<b>Cash at end of quarter</b>	2,933	2,933

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	89
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

N/A

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

The issue of 2,666,667 fully paid ordinary shares valued at \$0.75 each to Anglo Energy Company Inc. for an additional interest in the LaSalle Parish Project.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	2,000,000
4.2 Development	-
<b>Total</b>	<b>2,000,000</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,933	1,302
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>2,933</b>	<b>1,302</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased	LaSalle Parish Project An interest in 22 producing oil wells in LaSalle Parish Louisiana	See Annexure A	See Annexure A

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>	N/A	N/A	N/A	N/A
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	70,072,363	70,072,363		
7.4 Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs	2,667,000 14,000,000 1,000,000	2,667,000 14,000,000 1,000,000	\$ 0.75 \$0.40 \$0.40	\$0.75 \$0.40 \$0.40
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	N/A			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter	5,000,000 12,333,333 666,667	12,333,333 666,667	\$0.20 \$0.40 \$0.40	30 June 08 30 June 08 30 June 08
7.9 Exercised during quarter	325,000	325,000	\$0.20	\$0.20
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>	N/A			

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )	N/A	
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: .....31 October 2006.....  
(Director)

Print name: Justin Pettett.

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.

**Annexure A**

<b>Field Name</b>	<b>Existing Interest</b>	<b>Additional Interest</b>	<b>Total Interest</b>	<b>Oil wells</b>
Routh Point Field	10.00%	3.00%	<b>13.00%</b>	7
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