



DECEMBER 2010 QUARTERLY REPORT

Considerable progress has been made towards completing the Deshotels 20H No1 well as a substantial oil producer. Numerous significant hydrocarbon bearing fracture zones and individual fractures have been intersected in the horizontal leg. Twenty intervals, comprising an aggregate 640 feet of the 3,755 feet length of the horizontal leg, were perforated. The well is now being taken through the completion and clean-up process prior to bringing it online.

Justin Pettett, Pryme's Managing Director



Oil and gas being flared from the Deshotels 20-H No.1 while drilling

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Glossary

Bbls/day	Barrels (of oil) per day
Bbls/month	Barrels (of oil) per month
Bcf	Billion Cubic Feet
Bcfe	Billion Cubic Feet Equivalent
BOE	Barrels of Oil Equivalent
Mcf	Thousand Cubic Feet
Mcfd	Thousand cubic feet per day
MMcfd	Million Cubic Feet of Natural Gas per day
NRI	Net Revenue Interest
Tcf	Trillion Cubic Feet
Tcfe	Trillion Cubic Feet Equivalent
WI	Working Interest
3.28 feet	Equals 1 metre

Corporate Directory

Directors

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

Company Secretary

Ms Swapna Keskar

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Stock Exchanges

Australian Securities Exchange Limited (ASX)
Code: PYM

International OTCQX
Code: POGLY

Australian Company Number

117 387 354

Australian Business Number

75 117 387 354

December 2010 Quarterly Activity Report

28 January 2011

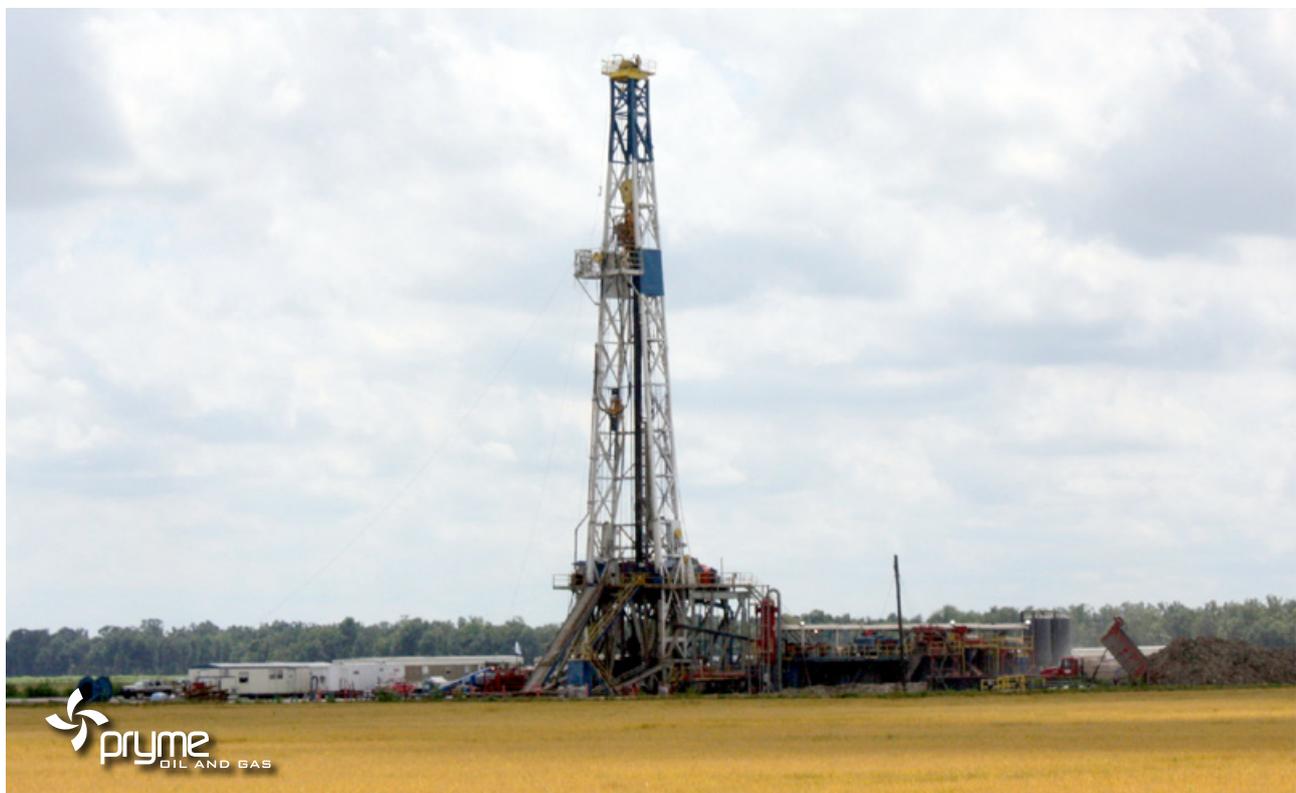
In accordance with Listing Rule 5.2, Pryme Oil and Gas Limited, an oil and natural gas producer and explorer operating in the United States, is pleased to report on its activities for the quarter ending 31 December 2010.

DECEMBER QUARTER HIGHLIGHTS

- Drilling completed of first horizontal well in productive Austin Chalk formation. Completion underway.
- Completion of private placement and rights issue to raise A\$3.7m of working capital.

A SMALL CAP GROWTH OPPORTUNITY

ASX Code:	PYM
Recent price:	\$0.225
<small>(21 January 2011)</small>	
Cash on hand:	\$2,579,000
Shares outstanding:	225,057,754
Market Capitalisation:	\$50m
Price range (12 month):	\$0.041-\$0.235



Projects

Quarterly Sales Report (net to Pryme)

Project	December 2010 Quarter		Calendar Year to Date	
	Natural Gas (Mcf)	Oil/Condensate (Bbls)	Natural Gas (Mcf)	Oil/Condensate (Bbls)
La Salle Parish	0	2,091	0	9,661
Four Rivers	0	2,090	0	10,732
Raven *	16,369	399	83,578	1,694
Catahoula Lake	0	1,477	0	5,293
Turner Bayou*	Flaring	270	Flaring	270
Total	19,693	6,347	86,902	27,669

* Actual sales for the first two months of the quarter and an estimate based on production data for the last month of the quarter.

LaSalle Parish Project (8% - 21.5% Interest)

The LaSalle Parish project is based on oil production from five fields, the first of which was discovered in 2000.

Fourth quarter oil sales of 2,091 barrels (23 Bbls/day net to Pryme) were 26% lower than for the previous quarter. This is mainly attributable to the post initial flush production from the Coleman No. 1 well, which was recompleted in a shallower zone during the third quarter.

50% through to 100% in acreage located within Catahoula Lake and its surrounds.

Sales for the quarter were 1,477 barrels of oil net to Pryme, a 27% decrease over sales for the previous quarter. Production was adversely affected by decline on the State Lease 502 No.1 well, scheduled maintenance and taking the C-11 well offline for repairs. The C-11 well will be brought back on line during the first quarter of 2011 once the lake water level is sufficient to deploy a work-over rig. Average sales net to Pryme were 16 Bbls/day for the quarter.

Raven Project (35% Interest / 25.38% NRI)

Fourth quarter sales for the Raven project were 16,369 Mcf of natural gas and 399 barrels of condensate net to Pryme, a 30% decrease in gas sales over the previous quarter, mainly due to the sale of 5% of Pryme's 40% working interest, however condensate sales increased by 17% over the previous quarter due to timing of oil sales throughout the quarter.

Catahoula Lake Project (25% Interest / 20.25% NRI)

The Catahoula Lake project is located in LaSalle, Rapides, and Grant parishes, Louisiana and is targeting multiple "stacked" oil zones throughout the Middle-Wilcox formation at depths ranging from 4,500 to 5,500 feet. Wells drilled in the Middle-Wilcox exhibit long production lives with low decline rates after the initial flush oil is produced and relatively steady production is established. Ultimate oil recoveries are expected to range from 50,000 to 200,000 barrels for each successful well drilled from land locations and in excess of 250,000 barrels for each successful well drilled from lake locations.

Pryme Oil and Gas Limited and Future Corporation Australia Limited each own 50% of Pryme Lake Exploration ('PLX') which in turn owns various Working Interest ranging from



Pryme's production facilities in Catahoula Lake

Projects (cont.)

As announced previously, active exploration on the lake has been impeded during 2010 by the bankruptcy of Pryme's partner, Tridimension Energy LLC. On 18 October 2010 an Asset Purchase Agreement was lodged with the United States Bankruptcy Court for the sale of Tridimension's oil and gas assets to a Houston based private oil and gas company, Sanchez Oil and Gas. The closing of the sale to Sanchez has been completed and is effective 1 November 2010. Pryme look forward to working closely with Sanchez on the further development of Catahoula Lake with drilling and exploration utilizing the barge rig expected to resume during 2011.

The Company has reviewed the potential benefits from working over operating wells within the PLX 100% owned tenements in Catahoula Lake and expects that the workover of up to three wells should result in a significant increase in production for little outlay. Therefore, subject to weather or other events limiting access to the wells, PLX intends to work-over three wells during the first quarter of 2011. The Company is anticipating that approximately three to four new wells will be drilled throughout 2011 on both PLX 100% owned tenements and tenements which are owned jointly with Sanchez.

Pryme Energy LLC, the wholly owned subsidiary and operating arm of Pryme Oil and Gas Inc., is the operator of PLX 100% owned leases on Catahoula Lake.

Four Rivers Project (25% Interest / 18.75% - 20% NRI)

Second quarter sales from the Four Rivers project was 2,090 barrels of oil net to Pryme, a 12% decrease over sales for the previous quarter. Average sales net to Pryme was 23 Bbls/day for the quarter.

Receipts from sales have been impeded through the past two quarters due to the bankruptcy of the operator in Four Rivers, Axis Onshore LP the operating arm of Tridimension Energy LLC. The transfer of operatorship to Sanchez was effective 1 November 2010 and operations, production and revenue should get back to normal moving forward.

Turner Bayou 3D Seismic Project

Target Horizon	Austin Chalk (Oil)
Depth <i>(total measured depth in feet)</i>	~20,000 feet
Reserves* <i>(Net to Pryme)</i>	502,000 BOE
Ownership Interest	52%
Turner Bayou Chalk Project WI	40%**
Net Revenue Interest	30%
Dry Hole Cost <i>(net to Pryme on initial well)</i>	~US\$3m - \$5m

* Pryme's 1P reserves shown in BOE and taken from Pryme's 31 December 2010 Reserves Statement released through the ASX on 16 July 2010. Further information on Pryme's reserves can be found at www.prymeoilandgas.com.

** The cost of exploration of the deeper Turner Bayou prospects is much higher than for the shallow prospects and Pryme has farmed out to other explorers a portion of its working interest in the deep prospects to mitigate risk and reduce expenditure.

Mechanical issues and the impact of Christmas and New Year holidays delayed the flow testing and completion of the Deshotels 20-H No.1 well in the Turner Bayou Chalk project.

To summarise progress to date – the horizontal leg of the well intersected a number of major fracture zones in the targeted Austin Chalk formation and flowed oil and gas to surface during drilling. A liner (casing) was run through the horizontal leg and cemented in place. Twenty intervals, comprising an aggregate 640 feet of the 3,755 feet length of the horizontal leg, were perforated. A plan was implemented to acidize each of the perforated intervals with the goal of cleaning up the perforations of residual cement and enhancing communication between the perforated intervals and the oil and gas bearing fracture zones.



Acidizing Deshotels 20-H No.1

Projects (cont.)



Deshotels 20-H No.1 2400 Barrel Production Facility

Progress with the acidizing procedure has been impeded by the mechanical failure of packers used to selectively isolate each perforated zone and ensure that the acid is directed to the most relevant areas of the formation. As a result, it appears that the perforated zones which would benefit most from acidizing have not been effectively treated and oil and gas production to date is adversely affected. The acidizing procedure was temporarily suspended pending a revised remediation plan and the securing of appropriate services.

Production facilities, comprising oil storage tanks, a natural gas flow line connecting to a nearby natural gas sales line and associated equipment, are currently being installed.

A well remediation plan, involving enhancing perforations in some locations and resuming selective acidization, is now underway and is expected to result in the well being brought online as a significant producer during February 2011.

Notwithstanding, the frustration caused by the delays in bringing the well into production, Pryme is confident that the ultimate performance of the well will confirm its view that the Deshotels 20-H No.1 well will be a significant oil producer which will provide an attractive financial return.

The Deshotels 20-H No.1 well, in Pryme's Turner Bayou Chalk project in the North Bayou Jack Field, is the first deep well to be drilled within the Turner Bayou 3D seismic survey. The well has been drilled to a depth of 16,400 feet (5,000 metres) vertically with a 3,755 feet (1,144 metre) horizontal leg through the Austin Chalk formation which is predominantly oil bearing in this region. The well location

was confirmed using high resolution 3D seismic data from a survey carried out in 2007 and data from surrounding well bores.

Turner Bayou is one of Pryme's high value projects. It is located in Avoyelles Parish, Louisiana. Pryme has a 40% working interest in the Turner Bayou Chalk project area, which is contained within the Turner Bayou 3D seismic survey, and a 52% working interest in the balance of Turner Bayou. The Turner Bayou project comprises approximately 80 square miles (50,000 acres) which have been imaged by a proprietary 3D seismic survey. Primary targets are contained within six prospective formations ranging in depth from the Frio formation at 3,000 feet, to the Tuscaloosa formation at 18,000 feet.

CORPORATE

In August 2010 Pryme raised \$1,700,000 by way of a private placement and offered a 1 for 8 non-renounceable rights issue providing the opportunity for eligible shareholders to acquire additional shares in the Company.

The Board of Directors recognised the support and loyalty of Pryme's shareholders and structured the capital raising to incorporate a rights issue at the same price as the placement (A\$0.08 per share) to raise a further A\$2,000,513. The timing of the rights issue was such that shareholders would have the opportunity to see more advanced results from the drilling of the Deshotels 20-H No.1 well in the Turner Bayou Chalk project prior to the closing date for subscription to the issue. The opportunity to purchase additional shares in Pryme was open to all eligible shareholders of the Company as at the record date which was 14 September 2010.

The combined effect of the private placement and the fully subscribed rights issue was the raising of A\$3,700,513 by issuing 46,256,417 new shares, taking the issued capital of the Company to 225,057,754 fully paid ordinary shares.

For further Company information please visit our website at www.prymeoilandgas.com or contact:

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Appendix 5B

Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,882)	(6,385)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,824	3,519
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)	-	-
	Net financing cash flows	1,824	3,519
	Net increase (decrease) in cash held	(58)	(2,866)
1.20	Cash at beginning of quarter/year to date	2,638	5,455
1.21	Exchange rate adjustments to item 1.20	(1)	(10)
1.22	Cash at end of quarter	2,579	2,579

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	238
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
<p><i>Other cash outflows represents the upfront costs of establishing Pryme Energy as an operator to support activities in Catahoula Lake including lodgement of a bond with the State of Louisiana</i></p>		

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

N/A

- 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

Appendix 5B

Mining exploration entity quarterly report

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	995
4.2 Development	-
4.3 Production	343
4.4 Administration	380
Total	1,718

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	2,579	2,638
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,579	2,638

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	Raven	Working Interest	40% WI	35% WI
6.2 Interests in mining tenements acquired or increased	-	-	-	-

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 Preference *securities (description)	N/A			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	225,057,754	225,057,754	Various	Fully Paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	25,006,417	25,006,417	\$0.08	Fully paid
7.5 *Convertible debt securities (description)	N/A			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)	-	-	<i>Exercise price</i> -	<i>Expiry date</i> -
Unlisted Options	500,000		\$0.15	20 January 2012
Listed Options	NIL			
7.8 Issued during quarter	NIL			
7.9 Exercised during quarter	NIL			
7.10 Expired during quarter	NIL			
7.11 Debentures (totals only)	N/A			
7.12 Unsecured notes (totals only)	N/A			

Appendix 5B

Mining exploration entity quarterly report

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 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: 28 January 2011

(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 Financial Reporting 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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