



pryme
OIL AND GAS



DECEMBER 2006 QUARTERLY REPORT

Table of Contents

Summary and Highlights.....	3
LaSalle Parish Project.....	4
Turner Bayou Project.....	5
Wave Exploration Projects.....	5
Issue and trading of loyalty options a success.....	7
Shareholder approve strategic alliance.....	7
Appendix 5B.....	8

Corporate Directory

Directors

Mr John Dickinson (Non-Executive Chairman)
 Mr Justin Pettett (Managing Director)
 Mr Ryan Messer (Executive Director)
 Mr Ananda Kathiravelu (Non-Executive Director)
 Mr Philip Judge (Non-Executive Director)

Company Secretary

Mr Matthew Fogarty

Registered and Principal Office

Level 7, 320 Adelaide Street
 BRISBANE QUEENSLAND 4000
 Phone: +61 7 3371 1103
 Fax: +61 7 3371 1105

Postal Address

GPO Box 111
 BRISBANE QLD 4001

Atlanta USA Office

925B Peachtree Street NE,
 Suite 384
 ATLANTA GEORGIA 30309
 Phone: +1 678 840 2348
 Fax: +1 404 420 2043

Email: info@prymeoilandgas.com

Website: www.prymeoilandgas.com

Auditors

Moore Stephens
 Level 25, 71 Eagle Street
 BRISBANE QLD 4000

Share Registry

Advanced Share Registry Services*
 110 Stirling Hwy
 NEDLANDS WA 6009
 Phone: +61 8 9389 8033
 Facsimile: +61 8 9389 7871

Solicitors

Steinepreis Paganin
 Lawyers & Consultants
 Level 4, Next Building
 16 Milligan Street
 PERTH WA 6000

Stock Exchanges

Australian Stock Exchange

Code: PYM
 Code: PYMO

American Depository Receipts (ADR)

Code: POGLY

Australian Company Number

117 387 354

Australian Business Number

75 117 37 354

December 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 December 2006.

SUMMARY AND HIGHLIGHTS

- Northwest Rogers No.16 and No.17 oil wells successfully drilled in the LaSalle Parish Project
- Coleman No. 7 recently completed and flowing 70 barrels of oil per day
- 3D seismic continues in Turner Bayou
- First Wave JV Project the Raven Prospect, fully syndicated with Pryme retaining a 40% working interest
- Issue and trading of Loyalty Options an overwhelming success
- Shareholders approve strategic alliance with drilling contractor to drill wells throughout 2007

A SMALL CAP GROWTH OPPORTUNITY

ASX Code:	PYM
OTC Code:	POGLY
Shares outstanding (diluted):	111,091,865
Market Cap (diluted):	\$55,545,932
Price range (21/4/06 – present):	\$0.23-\$1.15
Recent price (25 Jan 07):	\$0.50
Cash on hand:	\$4,786,000
Current monthly net prod:	1,407 Bbls
Prospective reserves:	277 BCF



Projects

LaSalle Parish Project

This project continues to be a very consistent and solid producer for Pryme with the drilling of two more development wells in the Northwest Rogers Field just before Christmas. The Northwest Rogers No.16 and No.17 were drilled back-to-back and discovered 24 feet and 22 feet respectively of oil sand in the 2nd Cockfield Sand formation in the Wilcox Basin. In addition, the Coleman No.7 in the Routh Point Field was completed and is flowing in excess of 70 barrels of oil per day with no water production.

These additional wells and their production will add to our revenues over the coming months and will be reflected in our next Quarterly Report for the period ending March 2007.

We are very happy with the consistency of this project. It gives the company a firm grounding to launch its aggressive exploration program in 2007. We plan to drill an additional Northwest Rogers well and Coleman well in the January/February 2007 time period, which such wells will be in the "development well" category.

Northwest Rogers No.16 and No.17 Wells, LaSalle Parish, Louisiana

The Northwest Rogers No.16 well was successfully drilled to a total depth of 1,614 feet (512 metres). A dual induction sonic log was run from 1,606 feet (510 metres) to the base of the surface casing at 169 feet and 24 sidewall cores were



Logging of the Northwest Rogers No.17 well

taken and analyzed. The log and the cores revealed 24 feet of excellent oil sand in the "2nd Cockfield" at 1,443 feet – 1,464 feet. There is no oil/water contact and the resistivity in this interval reached six (6) to eight (8) ohms, which is a clear indication of pure hydrocarbons in very permeable sandstone.

When a sand package is determined to be "between shale", as in the case with these Northwest Rogers wells, it typically means the well can achieve higher production rates by preventing oil migration into other "up-dip" sands and water encroachment into the producing zone. The core and log analyses indicate excellent permeability and no signs of depletion from the adjacent producing wells, making the decision to run production casing and complete the well an easy one.

The Northwest Rogers No.17 well was successfully drilled to a total depth of 1,683 feet (513 metres). A dual induction sonic log was run from 1,683 feet (513 metres) to the base of the surface casing at 169 feet and 24 sidewall cores were taken and analyzed between the interval 1,316 feet through to 1,462 feet. The log and the cores revealed 22 feet of excellent oil sand in the "2nd Cockfield" at 1,439 feet – 1,462 feet. There is no oil/water contact and the resistivity in this interval reached nine (9) ohms, which like in the NWR No.16 is a clear indication of pure hydrocarbons in a very permeable sandstone.

Typical production rates from wells in and near the same field completed in the 3rd Cockfield Sand have been 25-35 barrels of oil per day initially, with a sustainable rate of 18-22 barrels of oil per day over a thirty year period. At a sustained production rate of 20 barrels of oil per day and a US\$60 oil price, each additional well should generate approximately US\$66,500 per annum in operating income (approximately a 9% increase in total cash flow for Pryme) net to Pryme's interest, for a combined total of US\$133,000 per annum under that price assumption. Pryme has a 21.85% working interest (16.39% net revenue interest) in each well.

Both wells are currently being completed for production.

Coleman No.7 Well, LaSalle Parish, Louisiana

The Coleman No.7 development well was completed and brought into production on the 13th of December 2006 with flow rates increasing daily to its current level of approximately 70 barrels of oil per day with no water on an 11/64th choke and tubing pressure of 125 pounds. Most Middle-Wilcox wells do not produce without pumping units or other stimulation. In this case, the well is flowing on

Projects

its own. We expect the rate to remain flat for some time, as is the case with the other Coleman wells in the Routh Point field that produced in a similar manner in their initial phase.

The Coleman No.7 was drilled to a depth of 4,500 feet (1,371 meters) 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. The well is currently flowing from the C-2 formation with three (3) additional sands "up the hole" for future production. The successful completion and production of oil in the Coleman No.7 opens up another development well location to the northeast 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.

Pryme has a 13% working interest (9.75% net revenue interest) in the Coleman No.7 and the first oil production from the Coleman No.7 was sold at the end of December 2006.

Turner Bayou 3-D Seismic Project

Weems Geophysical of Houston, Texas has been busy throughout the Christmas period surveying and drilling shot holes in the most difficult areas of this seismic shoot. Although this project has had some minor setbacks due to weather conditions on site, one property in particular that is thickly wooded is also a hunting camp which was open for hunting. Otherwise, we are happy to report that these most difficult and time consuming areas have been completed.



3D Seismic Drilling Buggies on site in Turner Bayou

Actual recording of the 3D seismic data is expected to begin in mid January 2007. 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 deep gas fields, including BP Plc's Port Hudson and Judge Digby fields, which combined have produced almost 1.5 trillion cubic feet of natural gas.

The main oil and gas objectives at different depths in this project 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.

The initial drilling program is scheduled to begin in the Second Quarter of 2007. Pryme is the major shareholder in Turner Bayou with a 52% working interest.

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 percent in each of the prospects until the planned syndication of the working interest pursuant to the funding of each project, after retaining an interest for Pryme in each of them. Three of the projects that have been approved for funding, and through further evaluation during the leasing process, represent 123 BCF of prospective reserves in place based on various 3-D seismic and offset or analogue production. A summary of the progress of each Wave Exploration project is outlined below:

Kestrel Prospect, Calcasieu Parish, Louisiana

Kestrel has been fully leased and is currently being marketed to third parties for project funding. Wave Exploration has made several presentations on this project and has entered it into the annual NAPE oil and gas conference in Houston on the 1st and 2nd of February 07, to be marketed to third parties. NAPE (formerly: "North American Prospect Expo") was founded in 1993 to provide a marketplace for the buying, selling and trading of oil and gas prospects and producing properties via exhibit booths. NAPE brings state-of-the-art prospects and properties from U.S. and around the world, advanced technology and energy capital formation all together in one location, creating a pure market place to establish strategic alliances for doing business and initiating purchases and trades.

Kestrel has a two well potential and is located on 320 consolidated acres that will be drilled to 13,500 feet, targeting four "Hackberry" natural gas and condensate

Projects

(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 have been re-calculated in the order of 33 billion cubic feet (BCF), according to the current 3D seismic and according to Wave.

Raven Prospect, Lincoln Parish, Louisiana

The Raven Project consists of drilling in the fairway of the prolific Cotton Valley natural gas trend in northern Louisiana. Pryme has elected to retain an undivided 40% of the project for its own account, which includes a carried working interest, because of the favourable risk-to-reward ratio that characterizes this region. The remaining 60% will be held by an experienced, highly successful local operator, Nelson Energy of Shreveport, Louisiana.

Under the participation agreement with Nelson, Pryme will receive all of its capital spent in funding the acquisition of leases and geophysical data, plus the geology and the geophysical studies required by the project, plus US\$96,000 in cash, an 8% carried working interest in the leases to the casing point in the first two wells and an average 2.80% overriding royalty interest in the entire project.

Each well in the Raven Project is expected to be drilled to a



Drilling in the Cotton Valley Area

depth of approximately 10,000 feet to penetrate two primary objectives in the Cotton Valley formation, at an estimated cost of US\$2.3 million per well to the 100% working interest (US\$920,000 net to Pryme's interest.) The project has been classed as an "engineering play" to the extent that more emphasis is given to the drilling and completion techniques and production of the well, as generally most wells in the area will produce natural gas and condensate.

Expected reserves to be proven from each well drilled, based on conservative analogue production and drainage of wells in the area, is 5.0 billion cubic feet (BCF) per well. This would result in approximately US\$8,550,000 (US\$3,420,000 net to Pryme's interest) in the ground "un-produced gas" value per well using a gas price of US\$2.50 per MCF in situ. On a produced-gas, current net operating income basis the "in-ground" production could be much larger than the current estimate.

Approximately ten drilling locations have been identified in the project thus far, with the leasing of acreage continuing to expand the project size beyond its original scope. Prospective gas reserves to the 100% working interest within the Raven Prospect could be on the order of 50 BCF (20.0 BCF net to Pryme) according to Wave, based on 5.0 BCF per well.

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 is continuing to be leased in this highly competitive area and we expect to have our leasing completed by the end of the first quarter 2007.

Corporate

Issue and trading of Loyalty Options a success

On the 29th of September 2006 we issued a loyalty option prospectus for the issue of 1 option for every 3 shares held at an issue price of \$0.05 each. Many shareholders took up the allocation with the shortfall strategically placed with cornerstone investors and promoters of the company. We are happy to boast that since the listing of these options on the 23rd of October 2006 on the Australian Stock Exchange, the purchase price of the options has increased by a factor of five (5) or 500% to now be trading at \$0.25 per option.

We are pleased with response and would like to thank all of those shareholders who participated in the options issue for their support.

Shareholders approve strategic alliance with Golden West Drilling LLC to drill wells in 2007

On the 14th of December 2006 a general shareholder meeting of the company was held for shareholders to vote on the entry into an agreement with Golden West Drilling LLC (GWD) of Louisiana to drill wells for Pryme throughout 2007. Under the agreement Pryme has the exclusive right but not the obligation to use GWD to drill its wells. This means that GWD must make itself available to drill wells for Pryme although Pryme may use other drilling contractors at its discretion.

We are happy with this arrangement especially during these uncertain times involving the shortages and drill rigs and their availability along with service and supply companies. We expect this agreement to be most beneficial in our Turner Bayou drilling program once the 3D seismic shoot has been completed.

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

Justin Pettett
Chief Executive Officer
Pryme Oil and Gas Limited

Telephone: +61 7 3371 1103
Email: justin@prymeoilandgas.com

Ryan Messer
President
Pryme Oil and Gas Inc

Telephone: +1 678 840 2348
Email: ryan@prymeoilandgas.com



Completion work on the NWR No.16 well



Ryan Messer checking fluid levels in the LaSalle Parish Project

Appendix 5B

Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(377)	(8,856)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	2,265	13,730
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	2,265	13,730
	Net increase (decrease) in cash held	1,888	4,874
1.20	Cash at beginning of quarter/year to date	2,933	-
1.21	Exchange rate adjustments to item 1.20	(35)	(88)
1.22	Cash at end of quarter	4,786	4,786

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	124
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

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	2,500
4.2 Development	-
Total	2,500

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	4,786	2,933
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,786	2,933

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		

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	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 *Ordinary securities	70,262,363	70,262,363	Various	Fully Paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	3,250,000	3,250,000	\$0.40	\$0.40
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 Listed Options	40,829,502	40,829,502	<i>Exercise price</i> Various	<i>Expiry date</i> 30 June 2008
7.8 Issued during quarter	23,354,502	23,354,502	\$0.40	30 June 2008
7.9 Exercised during quarter	200,000	200,000	\$0.20	\$0.20
7.10 Expired during quarter				
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 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: **Date:** 29 January 2007

(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.



ABN 75 117 387 354
Tel: +61 7 3371 1103 Fax: +61 7 3371 1105
Level 7 320 Adelaide Street GPO Box 111 Brisbane Queensland 4001
www.prymeoilandgas.com

ATLANTA - BRISBANE - HOUSTON