



ASX Announcement

28 July 2006

Quarterly Activity Report

In accordance with Listing Rule 5.2, Pryme Oil and Gas Limited, a fast-growing Australian 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 June 2006.

Summary and Highlights

- **Purchase of interest in the LaSalle Parish Project**
- **Additional interest in the LaSalle Parish Project acquired**
- **First successful delineation test drilled in the LaSalle Parish Project**
- **A majority interest of 52 per cent working interest (Approx. 39 per cent NRI) secured in large south central Louisiana 3-D seismic Project**
- **Joint Venture Development Agreement with Wave Exploration Group LLC of The Woodlands, Texas USA, and Baton Rouge, Louisiana (Wave) to secure and develop various 2-D and 3D oil and gas prospects throughout the State of Louisiana.**
- **Securing the Kestrel opportunity providing a prospective 28.5 BCF, the first of the Wave prospects.**

LaSalle Parish Project

The LaSalle Parish Project is approximately 20 miles northeast of Alexandria, Louisiana. The area is geologically known as the "LaSalle Arch", which is oil productive from Wilcox sands that are Eocene Age. The Wilcox sands in this area are characterized by prolific, long-life oil production.

The Project comprises 22 oil wells, several with "stacked" oil formations that have been undeveloped, six formation water disposal wells and associated facilities, all of which are located in six separate fields with leases covering an area of approximately 1,125 acres as set out below:

<u>Field Name</u>	<u>Interest</u>	<u>Oil wells</u>	<u>SWD wells</u>	<u>Acreage</u>
Routh Point Field	13.00%	7	1	425 acres
Northwest Rogers Area	21.50%	6	1	80 acres
Petro Hunt et al Boot Hill Lease	20.20%	3	1	120 acres



Shirley State Area	12.40%	2	1	260 acres
Ward Lease	8.25%	2	1	160 acres
LA Pacific SU65 Ray 2-6SU 56	8.00%	2	1	80 acres

Note: SWD means Salt Water Disposal

Pryme initially purchased its interest in the LaSalle Parish Project on Wednesday, 19th April 2006, with the assignment of all working interests' rights, title and ownership made to Pryme on that day. Pryme paid US\$3,110,000 in cash and 3,300,000 ordinary shares to Mr Jay Stewart and Craig J Sceroler Inc for the working interest. The effective date of the purchase was 1st April 2006, so that Pryme had accrued 19 days of April oil production to be sold at the end of that month.

Pryme increased its working interest in the producing LaSalle Parish Project in Louisiana in July, boosting its projected cash flow. The additional stake was purchased from Miami-based Anglo Energy Company Inc. on 5th July 2006. The consideration paid was 2,667,000 fully paid shares in Pryme. The additional interest in the LaSalle Parish Project had the affect of increasing Pryme's current net cash flows by approximately 50 per cent.

Reserve Study

A reserve study was conducted on Pryme's interest in the LaSalle Parish Project. The report was written by R.A. Lenser & Associates of Houston, Texas, an established reservoir engineering firm with large and small corporate clients and known for producing bankable reserve analyses (see: www.ralenser.com). The study was made via the "Deterministic" method, the only one approved by the U.S. Securities & Exchange Commission.

The study, which includes all of Pryme's new aggregate interests on a current basis, shows gross Proved and Probable reserves at LaSalle Parish of 2,869,339 barrels and 320,717 net to Pryme. Proved reserves total 2,610,460 gross barrels and 287,971 net, while Probable reserves are 258,879 gross barrels and 32,746 net. No Possible reserves were calculated.

This equates to a purchase price of US\$15.62 per barrel in the ground when dividing the total amount of net reserves to Pryme by the total purchase price paid for the interests.

The LaSalle Parish Project production is close to 15,000 barrels of oil per month of which Pryme's share of this is approximately 1,400 barrels of oil per month. We expect to increase this production rate through development drilling which is continuing in the LaSalle Parish Project. The first step-out well was drilled on 6th June 2006 in the Shirley State Area called the SU118 No.2. The second development well has been staked and permitted and is awaiting a drilling rig in the Routh Point Field called the WX F RA SUA; Coleman No.6 well.



SU118 No.2 well, LaSalle Parish, Louisiana

The SU118 No.2 step-out well was successfully drilled to a total depth of 4,400 feet (1,341 metres) and encountered five feet of the G-1 sand. A core analysis indicated excellent permeability and the completion of the well has begun with the running of well casing. Commercial oil shows were also recovered from two other secondary objectives, the F-1 and the F-4 sands which each contained 4 feet of pay. Marginal oil shows were also recovered from the C-2 sand and the F-2 intervals. The F-1 and the F-4 zones will be kept as Proved, Undeveloped formations for future recompletion up the hole.

Pryme has a 10 per cent working interest (7.5 per cent net revenue interest) in the SU118 well, which is operated by Belle Exploration Inc of Natchez, Mississippi. The G-1 sand is currently producing at a rate of +/- 75 barrels of oil a day to the south and has cumulative production that exceeds 56,000 barrels since December 2003. Pryme will continue to drill for the balance of this year.

South Central Louisiana 3-D Seismic Project

Under the Development agreement with Big Pine Petroleum, Inc., of Downsville, Louisiana and Jennings Resource LLC, of Mandeville, Louisiana Pryme will fund and own an 80.8 per cent interest in the 3-D seismic shoot in the south central Louisiana trend area. This will give Pryme the right to a 52 per cent working interest to explore and drill prospects in the onshore trend area in south central Louisiana that is highly prospective for oil and gas at several intervals between 2,000ft and 15,000ft. This seismic project covers territory up to 90 square miles (57,600 acres) within an area of mutual interest of some 200 square miles (128,000 acres.) Our objective is to test and develop zones that may be indicated as prospective via the forthcoming 3-D seismic program which may include the "WEA" (wavelet energy absorption) attribute.

The group that is driving this initiative is composed of Louisiana geologists, geophysicists and a petroleum engineer, all of who hold a stake in the Company and have successful track records in exploration in the region. Two out of three of Pryme's executive management, both living in the United States, are members of this project team.

The sequence of events is as follows:

- Permit and option (if possible) prospective acreage
- Drill shot holes and shoot three dimensional seismic over prospective acreage
- Process and evaluate 3-D data
- Derive and high-grade prospects from data evaluation



- Drill prospects

We currently have over 25,000 acres permitted to shoot our 3-D seismic and are planning to begin drilling the shot holes in early September to gather the 3-D data. This process usually takes three months based on a shoot of this size taking us through to the end of November at which point the data will be processed and ready to view at the end of the year early 2007. If successful, a drilling program will commence in the first quarter of 2007. The 3-D data collected will be in addition to 250 miles of existing 2-D seismic data owned by Pryme that identifies several drillable prospects in the same region.

Wave Exploration Projects

In May, Pryme signed a Joint Venture Development Agreement with Wave for the first right of refusal to fund the lease and option costs to secure various project acreage, along with any ancillary 2-D or 3-D data required to turn projects to third parties for a profit, while keeping a minimum 20 per cent working interest, also on a "first right of refusal" basis.

Pryme will receive 100 per cent of its funding capital back from third-party investors prior to the booking of a rig to drill the prospects. Pryme will also share in 45 per cent of any cash profits, overrides or carried working interests for its seed-capital role in the project, with Wave receiving 55 per cent.

The scope of projects being targeted by Wave include large oil and intermediate natural gas reserve type targets confirmed with analogue shows or production, and 2-D or 3-D seismic data. In the first Wave project, the Kestrel Prospect, Pryme and Wave have a combined working interest of 100 per cent in the prospect with Pryme's working interest as high as 80 per cent, depending upon the ultimate negotiated trade for the capitalisation of the Prospect (see below)

Kestrel Prospect, Calcasieu Parish, Louisiana

Pryme, under the Joint Venture Agreement with Wave, will earn 45 per cent of all promotes including overrides, carried working interests and cash fees. Kestrel has a two well potential and is located on 300 consolidated acres that would 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.

The location has also been confirmed by 3-D seismic data. Approximately 6,500,000 barrels of oil and 101 billion cubic feet of gas have been produced in the vicinity of the Kestrel prospect, in what is postulated to be from separate reservoirs. Kestrel will be drilled on a 200-acre horst block 300 feet up dip and upthrown to a well that produced 1.2 BCF from a Hackberry Sand.

The budgeted cost outlay by Pryme to secure the prospect is US\$101,250. Based on the trade terms to be offered to third parties, Pryme will receive all of its outlaid capital back in the prospect



plus an US\$80,000 cash fee prior to drilling. A 0.8 per cent overriding royalty interest and an 8 per cent carried working interest will be Pryme's objective during trade negotiations with third-parties.

The trade package is due to be released in early August. The Directors and the Advisory Board continue to review opportunities.

Pryme Oil and Gas Limited (PYM) is a fast-growing Australian oil and natural gas producer and explorer with interests in the U.S., the world's biggest oil market. The company has an exceptional suite of exploration projects focused on Louisiana, the fifth-largest oil-producing state in the U.S. These projects are funded in part by existing cash flow. Pryme's management team has a total of almost 50 years of energy industry experience and has uniquely focused local knowledge, underscored by the proven track records of its managers and directors. Directors of the company are John Dickinson (Non Executive Chairman), Justin Pettett (Managing Director), Ryan Messer (Executive Director) and Ananda Kathiravelu (Non Executive Director).

For further information please 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

ABN

75 117 387 354

Quarter ended ("current quarter")

30 June 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (7... months) \$A'000
1.1 Receipts from product sales and related debtors	100	100
1.2 Payments for (a) exploration and evaluation	(781)	(781)
(b) development	-	-
(c) production	(56)	(56)
(d) administration	(235)	(360)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	5	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(967)	(1,092)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	(4,182)	(4,182)
(b)equity investments	-	-
(c) other fixed assets	(8)	(8)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	(269)	(269)
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(4,459)	(4,459)
1.13 Total operating and investing cash flows (carried forward)	(5,426)	(5,551)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,426)	(5,551)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	6,664	6,873
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	6,664	6,873
	Net increase (decrease) in cash held	1,238	1,322
1.20	Cash at beginning of quarter/year to date	84	-
1.21	Exchange rate adjustments to item 1.20	(20)	(20)
1.22	Cash at end of quarter	1,302	1,302

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	137
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

Financing facilities available

Add notes as necessary for an understanding of the position.

Amount available \$A'000	Amount used \$A'000
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+ See chapter 19 for defined terms.

3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	1,300,000
4.2	Development	-
Total		1,300,000

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	1,302	84
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,302	84

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	Turner Bayou LLC	3-D seismic project in south central Louisiana	40% 52%

+ 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.

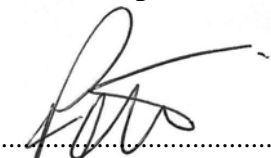
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	N/A	N/A	N/A	N/A
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	52,080,363	52,080,363		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	2,500,000 35,000,000 3,300,000 1,180,363	2,500,000 35,000,000 3,300,000 1,180,363	\$ 0.16 \$0.20 \$0.16 \$0.28	\$0.16 \$0.20 \$0.16 \$0.28
7.5 +Convertible debt securities <i>(description)</i>	N/A			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>	N/A			

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<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: ...28th July 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.