Pancontinental Oil & Gas NL

ACN 003 029 543

Financial Report

for the

Half-Year ended 31 December 2010

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2010 and any public announcements made by Pancontinental Oil & Gas NL during the Half-Year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Directors' Report
31 December 2010

The Directors present their Report on the consolidated entity consisting of Pancontinental Oil & Gas NL ("Pancontinental" or "the Company") and the entities it controlled at the end of or during the Half-Year ended 31 December 2010.

The names and particulars of Directors of the Company during the whole of the Half-Year and up to the date of this Report are:

Name	**Particulars**
Henry David Kennedy Geologist and Company Director with extensive commercial experience in resource companies. Appointed 31 August 1999	Chairman
Roy Barry Rushworth Petroleum Geologist with extensive experience and involvement in the oil and gas exploration industry. Appointed 10 August 2005	Chief Executive Officer
Ernest Anthony Myers Certified Practicing Accountant with over 30 years management and administration experience in the resources industry. Appointed 5 January 2009	Finance Director
Ian Raymond Cornelius [passed away 14 July 2010] Considerable experience in the exploration and resources industry and success in the exploitation and development of resource projects. Appointed 15 October 1992	Non-Executive Director
Anthony Robert Frederick Maslin Stockbroker with corporate experience in both management and promotion, along with an extensive understanding of financial markets. Appointed 17 December 2010	Non-Executive Director
Vesna Petrovic Certified Practicing Accountant with experience in the resources sector, particularly with companies involved in Africa. Appointed 16 April 2010	Company Secretary

Directors' Report
31 December 2010

Review and Results of Operations

The review of the Company's operations during the Half-Year ended 31 December 2010 is as follows.

Financial

	Segment Revenue $	Segment Result $
Oil and gas exploration		
Interest	28,964	28,964
Other revenue	-	-
Unallocated expenses		(485,292)
Operating profit/(loss)		(456,328)
Income Tax		-
Operating profit/(loss) for Half-Year		(456,328)

Review of Operations

During the Half-Year Pancontinental maintained its focus on the Kenya Projects and the Baniyas Prospect (Permit EP 424) in Western Australia.

The projects and the activities undertaken during the period are detailed as follows:

KENYA

OFFSHORE BLOCK L8

Pancontinental Oil & Gas NL – 25%

Interpretation and mapping continued on the Mbawa 3D seismic data set acquired late 2009. Joint venture partner Origin has now divested a 50% interest in the permit to Apache who will become operator of the joint venture.

After talking to a number of companies regarding their possible farmin for the drilling of the Mbawa prospect, Pancontinental signed an agreement with Tullow Kenya B.V. a wholly owned subsidiary of Tullow Oil plc ("Tullow") for Tullow to farmin to a 10% interest in the licence over offshore Kenya Block L8 that contains the giant Mbawa Prospect. Pancontinental will retain a 15% interest in L8, from which Tullow will then have an option to earn a further 5%.

Directors' Report
31 December 2010

ONSHORE / OFFSHORE BLOCK L6

Pancontinental Oil & Gas NL – 40%

The joint venture continued to seek a farminee for 3D seismic acquisition over the Kifaru Prospect in 2011 and drilling in 2011 / 2012.

NEW PROJECTS IN NEGOTIATION - BLOCKS L10A AND L10B

Pancontinental Oil & Gas NL – 15%

Pancontinental announced that it was part of a consortium negotiating for new exploration and production licences over Blocks L10A and L10B offshore Kenya following an offer by the Kenyan Ministry of Energy.

MALTA

OFFSHORE AREA 5; AREA 4, BLOCK 3.

Pancontinental Oil & Gas NL - 80%

During the Half-Year the Company had a meeting with the Ministry of Resources and Rural Affairs in Malta. Pancontinental is seeking a means of restarting exploration in the licence area as soon as possible.

Activities on the Company's Malta areas have been suspended since September 2005 under force majeure provisions of the ESA due to border issues between Malta, Libya and Tunisia.

NAMIBIA

RECONNAISSANCE LICENSE 1 /2007, OFFSHORE WALVIS BASIN

Pancontinental Oil & Gas NL - 100%

Pancontinental has negotiated the details of a Petroleum Agreement and Exploration Licence with the Ministry of Mines and Energy of Namibia for a large offshore exploration area.

The Company continued to negotiate a Joint Venture Agreement with Namibian participant Paragon Investment Holdings (Pty) Ltd (15%).

Directors' Report
31 December 2010

AUSTRALIAN PROJECTS

EP 104 / R1 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL – 10%

Renewed testing of the Stokes Bay 1 well was carried out in November 2010 using a coiled tubing unit (CTU). Saline water was recovered and this is interpreted to be formation fluid. No oil or gas was recovered during the test.

EP 424 OFFSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL – 25%

During the Half-Year, the Joint Venture continued to negotiate an extension of its interest in the Baniyas Prospect into neighbouring acreage.

L15 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL – 12%

Pancontinental and its co-venturers have been granted Petroleum Production Licence L15 over the West Kora-1 oil discovery well in the Canning Basin of Western Australia. The licence is for 21 years commencing 1 April 2010. The final percentage interests of the joint venture participants are yet to be resolved.

L15 covers two graticular blocks 6054 and 6126 adjacent to the R1 licence area over the Stokes Bay-1 well and the Point Torment-1 gas discovery in which Pancontinental has a 10% interest.

EP 110 ONSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL – 25%

This permit is operated in conjunction with EP-424. The parties in EP-110 have identical equities to those in permit EP-424.

EP 406 OFFSHORE SHARK BAY, CARNARVON BASIN

Pancontinental Oil & Gas NL – 5%

Permission is awaited to explore this area, which is subject to a Marine Park and World Heritage Listing.

Directors' Report
31 December 2010

CORPORATE

During the Half-Year, 9,500,000 options exercisable at $0.09 expired. No options were exercised during the Half-year.

Changes In State of Affairs

During the Half-Year ended 31 December 2010 there was no significant change in the entity's state of affairs other than that referred to in the Half-Year Financial Statements or Notes thereto.

This Report is made in accordance with a Resolution of the Directors.

E A Myers
Director
PERTH, 9th day of March 2011

ROTHSAY

96 Parry Street, Perth WA 6000 P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 9227 0552 www.rothsay.com.au

The Directors
Pancontinental Oil & Gas NL
PO Box 8260
Perth Business Centre
Perth WA 6849

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 31 December 2010 interim financial statements; and

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

Graham Swan (Lead auditor)

Rothsay Chartered Accountants

Dated 9 March 2011

ROTHSAY

96 Parry Street, Perth WA 6000 P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 9227 0552 www.rothsay.com.au

Independent Review Report to the Members of Pancontinental Oil & Gas NL

The financial report and directors' responsibility
The interim consolidated financial report comprises the statement of financial position, statement of comprehensive income, statement of changes in equity, cashflow statement, accompanying notes to the financial statements, and the directors' declaration for Pancontinental Oil & Gas NL for the half-year ended 31 December 2010.

The Company's directors are responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach
We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim consolidated financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated financial position as at 31 December 2010 and the performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Pancontinental Oil & Gas NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Independence
In conducting our review we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim consolidated financial report of Pancontinental Oil & Gas NL is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the consolidated financial position as at 31 December 2010 and of the performance for the half-year ended on that date; and

- complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Rothsay

Rothsay

G R Swan

Graham R Swan
Partner

Dated 9 March 2011

Chartered Accountants

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW).

PANCONTINENTAL OIL & GAS NL
ACN 003 029 543

Directors' Declaration
For The Half-Year Ended 31 December 2010

The Directors declare that:

(a) The attached Financial Statements and Notes thereto comply with Accounting Standards;

(b) The attached Financial Statements and Notes thereto give a true and fair view of the financial position and performance of the consolidated entity;

(c) In the Directors' opinion, the attached Financial Statements and Notes thereto are in accordance with the Corporations Act, 2001; and

(d) In the Directors' opinion, for the reasons set out in note 1, there are reasonable grounds to believe that Pancontinental Oil & Gas NL will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a Resolution of the Directors pursuant to section 303(5) of the Corporations Act, 2001.

On behalf of the Directors

E.A. Myers

E A Myers
Director
PERTH, 9th day of March 2011

PANCONTINENTAL OIL & GAS NL
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Condensed Consolidated Statement of Comprehensive Income
For The Half-Year Ended 31 December 2010

Continuing Operations	**Note**	**Half-Year Ended 31-Dec-10**	**Half-Year Ended 31-Dec-09**
Revenue from Operating Activities		**$**	**$**
Interest received - other		28,964	4,813
Other income		-	56,605
Total Revenues from Operating Activities		**28,964**	**61,418**
Depreciation		(581)	(1,102)
Salaries and employee benefits		(962)	(1,381)
Director remuneration and benefits expense		(150,833)	(81,794)
Audit fees		(8,500)	(9,500)
Exploration costs written off		(50,932)	(9,427)
Generative exploration expenditure		(20,859)	(22,461)
Annual report costs		(17,292)	(16,945)
ASX fees		(25,868)	(22,012)
Administration, accounting and secretarial fees		(109,643)	(157,316)
Insurance		(516)	(980)
Legal fees		(3,923)	(13,493)
Share registry costs		(8,992)	(11,336)
Rent and outgoings		(38,840)	(34,218)
Travel		(21,781)	(14,492)
Provision for loss on investment		-	(833,414)
Other		(25,770)	-
Profit/(Loss) before Income Tax Expense		**(456,328)**	**(1,168,453)**
Income Tax Expense		-	-
Profit/(Loss) for the Period		**(456,328)**	**(1,168,453)**
Other Comprehensive Income /(Loss)			
Other comprehensive income		-	-
Other Comprehensive Income/(Loss) for the Period, Net of Income Tax		-	-
Total Comprehensive Income/(Loss) for the Period		**(456,328)**	**(1 168 453)**
Basic Loss per share (cents per share)	**5**	(0.0770)	(0.2264)
Diluted loss per share (cents per share)		(0.0770)	(0.2264)

The above Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

PANCONTINENTAL OIL & GAS NL
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Condensed Consolidated Statement of Financial Position
As at 31 December 2010

	Note	Half-Year Ended 31-Dec-10 $	Annual Report 30-Jun-10 $
Current Assets			
Cash and cash equivalents	**3**	942,704	1,639,859
Trade and other receivables		14,794	19,318
Total Current Assets		**957,498**	**1,659,177**
Non-Current Assets			
Plant and equipment		2,135	2,280
Deferred exploration and evaluation expenditure		10,333,118	10,129,621
Total Non-Current Assets		**10,335,253**	**10,131,901**
Total Assets		**11,292,751**	**11,791,078**
Current Liabilities			
Trade and other payables		64,994	106,993
Total Current Liabilities		**64,994**	**106,993**
Total Liabilities		**64,994**	**106,993**
Net Assets		**11,227,757**	**11,684,085**
Equity			
Contributed equity	**4**	33,433,998	33,433,998
Reserves		764,258	1,187,215
Accumulated losses	**2**	(22,970,499)	(22,937,128)
Total Equity		**11,227,757**	**11,684,085**

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

PANCONTINENTAL OIL & GAS NL
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Consolidated Statement of Changes in Equity
For the Half-Year ended 31 December 2010

Consolidated	Share Capital $	Retained Earnings $	Option Reserve $	Total Equity $
Balance at 1 July 2009	30,361,641	(21,219,786)	1,256,527	10,398,382
Profit or loss	-	(1,168,453)	-	(1,168,453)
Other comprehensive income/(loss)	-	-	-	-
Shares issued (net of costs)	2,238,943	-	-	2,238,943
Shares on acquisition	833,414	-	-	833,414
Share options	-	69,313	(69,313)	-
Balance at 31 December 2009	**33,433,998**	**(22,318,926)**	**1,187,214**	**12,302,286**
Balance at 1 July 2010	33,433,998	(22,937,128)	1,187,215	11,684,085
Profit or loss	-	(456,328)	-	(456,328)
Other comprehensive income/(loss)	-	-	-	-
Shares issued (net of costs)	-	-	-	-
Shares on acquisition	-	-	-	-
Share options	-	422,957	(422,957)	-
Balance at 31 December 2010	**33,433,998**	**(22,970,499)**	**764,257**	**11,227,757**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

PANCONTINENTAL OIL & GAS NL
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Consolidated Statement of Cash Flows
For The Half-Year Ended 31 December 2010

	Half-Year Ended 31-Dec-10 $	Half-Year Ended 31-Dec-09 $
Cash Flows from Operating		
Payments to suppliers and employees	(456,614)	(397,187)
Interest received	28,964	10,548
Other	-	275,214
Net Cash from Operating Activities	**(427,650)**	**(111,425)**
Cash Flows from Investing		
Acquisition of plant & equipment	-	-
Exploration expenditure	(269,505)	(349,357)
Net Cash from Investing Activities	**(269,505)**	**(349,357)**
Cash Flows from Financing		
Issue of shares	-	2,250,862
Net Cash from Financing Activities	**-**	**2,250,862**
Net Increase (Decrease) In Cash and Cash Equivalents	(697,155)	1,790,080
Cash and Cash Equivalents at beginning of Half-Year 1 July	1,639,859	720,804
Effect of exchange rate fluctuations on cash held	-	80
Cash and Cash Equivalents at end of Half-Year	**942,704**	**2,510,964**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For the Half-Year ended 31 December 2010

1. Basis of Preparation of Half-Year Financial Statements

This general purpose financial report for the Half-Year ended 31 December 2010 has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 134: Interim Financial Reporting. This Half-Year Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2010 and public announcements made by Pancontinental Oil & Gas NL during the Half-Year in accordance with any continuous disclosure obligations arising under the Corporations Act, 2001.

The accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Pancontinental Oil & Gas NL and the companies it controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for that part of the reporting period during which the company had control.

All intercompany balances and transactions, including unrealized profits arising from intra group transactions, have been eliminated in full.

Cash

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Taxation

The Company has not brought to account the estimated future income tax benefits attributable to tax losses and temporary differences as a deferred tax asset, as it is not yet considered probable that future taxable profit will be available for utilisation.

Impairment of Assets

The recoverable amount of an asset is determined as the higher of net selling price and value in use.
Plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses (the cost method). The fair value of plant and equipment, as determined by reference to observable prices, is not materially different to the carrying amount.

Capitalisation of Exploration and Evaluation Costs

The Company complies with AASB 6 *Exploration for and Evaluation of Mineral Resources*. Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow reasonable assessment regarding the existence of economically recoverable reserves.

Costs carried forward in respect of an area that is abandoned are written off in the year which the decision to abandon is made.

Notes to the Financial Statements
For the Half-Year ended 31 December 2010

1. Basis of Preparation of Half-Year Financial Statements Continued

Going Concern
The financial statements have been prepared on a going concern basis. When making this assessment management took into account the forecast budget for the next twelve months and all available relevant information. It was also noted that the Group has a history of being able to raise funds and also has the option of farming out exploration commitments to more manageable levels should the circumstances arise.

Significant Accounting Policies & Changes in Accounting Policies
The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2010.

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

2. Accumulated Losses

	Half-Year Ended 31-Dec-10 $	Half-Year Ended 31-Dec-09 $
Loss from ordinary activities after related income tax expense	(456,328)	(1,168,453)
Accumulated profits (losses) brought forward	(22,937,128)	(21,219,786)
Adjustment from options (options vesting and expiring)	422,957	223,940
Adjustment from options (prior year)	-	(154,627)
Accumulated profits (losses) at end of Half-Year	**(22,970,499)**	**(22,318,926)**

3. Reconciliation of Cash

Cash at the end of the Half-Year as shown in the Statement of Cash Flows is reconciled to the related items in the Financial Statements as follows:	Half-Year Ended 31-Dec-10 $	Half-Year Ended 31-Dec-09 $
Cash on hand and at bank	942,704	2,510,964
Cash and Equivalents at 31 December 2010	**942,704**	**2,510,964**

PANCONTINENTAL OIL & GAS NL
ACN 003 029 543

Notes to the Financial Statements
For the Half-Year ended 31 December 2010

4. Issued and Quoted Securities at end of current Half-Year

Category of Securities	Number Issued	Number Quoted	Exercise	Expiry
Ordinary Shares:	592,286,658	592,286,658		
Issued during Half-Year ended 31 December 2010:	-	-		
	592,286,658	**592,286,658**		
Options at beginning of the Half-Year				
	9,500,000	-	$0.09	28 Nov 10
	9,250,000	-	$0.10	28 Nov 11
	4,500,000	-	$0.06	28 Nov 12
	23,250,000	-		
Expired during the Half-Year				
	9,500,000	-	$0.09	28 Nov 10
	9,500,000	-		
Options at end of the Half-Year				
	9,250,000	-	$0.10	28 Nov 11
	4,500,000	-	$0.06	28 Nov 12
	13,750,000	-		

5. Earnings per Share

	Half-Year Ended 31-Dec-10	Half-Year Ended 31-Dec-09
Basic earnings per share - cents	(0.0770)	(0.2264)
Diluted earnings per share is not materially different from Basis earnings per share	(0.0770)	(0.2264)
The weighted average number of ordinary shares outstanding during the Half-Year used in the calculation of basic earnings per share	592,286,658	516 126 917

6. Segmental Information

The Company operates in Australian, African and Mediterranean regions, however internal reporting is conducted on an entity wide basis.

Notes to the Financial Statements
For the Half-Year ended 31 December 2010

7. Subsequent Events

No matters or circumstances have arisen since the end of the Half-Year which significantly affected or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company as reported to the Half-Year ended 31 December 2010 other than:

- Pancontinental's signed agreement with Tullow to farmin to a 10% interest in the licence over Kenya Block L8 with an option to earn an additional 5%. This agreement follows the divestment of a 50% interest in the permit to Apache by joint venture partner Origin; and

- Pancontinental announced that it was part of a consortium negotiating for new exploration and production licences over Blocks L10A and L10B offshore Kenya following an offer by the Kenyan Ministry of Energy.

8. Commitments for Expenditure (Contingent Liability)
Oil Leases and Permits

In order to maintain current rights of tenure to permits, the Company is required to perform minimum expenditure requirements of various authorities and pay fees. The Company may be required to outlay an amount of approximately $460,653 in the next year with respect to permit lease rentals and exploration expenditures to meet these minimum expenditure requirements. The balance of these obligations will be fulfilled in the normal course of operations, which may include farmout, joint venture and direct exploration expenditure.