

# Pancontinental Oil & Gas NL

ABN 95 003 029 543

Annual Financial Report

for the year ended 30 June 2011

## Corporate Information

ABN 95 003 029 543

### Directors

Mr Henry David Kennedy (Non-Executive Chairman)  
Mr Roy Barry Rushworth (Executive Director & Chief Executive Officer)  
Mr Ernest Anthony Myers (Executive Finance Director)  
Mr Anthony Robert Frederick Maslin (Non-Executive Director)

### Company Secretary

Mrs Vesna Petrovic

### Registered Office

288 Stirling Street  
Perth WA 6000  
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### Share Register

Advanced Share Registry Services  
PO Box 1156  
Nedlands WA 6909  
Telephone: +61 8 9389 8033

### Auditors

Rothsay Chartered Accountants  
152-158 St Georges Terrace  
Perth WA 6000

### Internet Address & Contact

[www.pancon.com.au](http://www.pancon.com.au)  
info@pancon.com.au

### ASX Code

PCL

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## Directors' Report continued

30 June 2011

Your directors submit their report for the year ended 30 June 2011.

### DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

**Mr Henry David Kennedy** MA (Geology), SEG, PESA, AIG (Non-Executive Chairman)

Mr Kennedy has had a long association with Australian and New Zealand resource companies and as a technical director has been instrumental in the formation and/or development of a number of successful listed companies. During his term as executive director, these companies were involved in discovery of the Tubridgi gas field, South Pepper, North Herald and Chervil oil fields in Western Australia and the Kupe South and Rua oil/gas condensate fields in New Zealand. Mr Kennedy is currently a non-executive director of Norwest Energy NL (since April 1997).

**Mr Roy Barry Rushworth**, BSc (Executive Director, Chief Executive Officer)

Mr Rushworth has more than twenty five years experience in petroleum exploration. He is a graduate of Sydney University, with a Bachelor of Science Degree in Geology and Marine Sciences. Commencing with positions in exploration operations, his career then extended to a period as Chief Geologist and subsequently Exploration Manager for an Australian listed company. A number of oil and gas discoveries were made by the company during that time. More recently, as the General Manager and Director of Afrex Limited, he was responsible for acquiring international new venture opportunities for Afrex Limited and its then co-venturer Pancontinental Oil & Gas NL. In this position he identified and negotiated projects in Malta, Kenya and Morocco. Following the merger of Afrex Limited with Pancontinental in August 2005, he accepted the position of Director - New Ventures for Pancontinental and is now the Chief Executive Officer of the company.

**Mr Ian Raymond (Inky) Cornelius** (Independent Non-Executive Director) (Passed away 14 July 2010)

Mr Cornelius worked at the Western Australian Mines Department, then as Mining Titles Officer of a multi national mining corporation before going into business as a tenement consultant. He had many years experience in the resources industry and has had great success in the exploitation of several mineral deposits. Mr Cornelius was also a director of East Africa Resources Ltd (since October 2003), Montezuma Mining Company Limited (since August 2006) and non-executive director of Alkane Exploration Ltd (since July 2006). On 14 July 2010, the company announced the sad passing away of director Ian Raymond (Inky) Cornelius.

**Mr Anthony Robert Frederick Maslin** BBus (Independent Non-Executive Director)

Mr Maslin is a stockbroker with corporate experience in both management and promotion, along with an extensive understanding of financial markets. Mr Maslin has been instrumental in the capital raisings and promotion of several resource development companies. Mr Maslin is also a director of Buxton Resources Ltd (since November 2010).

**Mr Ernest Anthony Myers** CPA (Executive Finance Director)

Mr Myers has over 30 years experience in the resources industry. Mr Myers is an accountant (CPA) who has held senior management and executive roles within a number of ASX listed companies. Mr Myers joined Pancontinental in March 2004 as Company Secretary and was appointed Finance Director in January 2009. He brings corporate and operational experience in a variety of fields including project development, feasibility studies and both equity and debt financing. Prior to his appointment with Pancontinental, Mr Myers was CFO and Company Secretary of Dragon Mining Limited for a period of six years during its transition from an exploration company to a gold producer in Sweden. Mr Myers has extensive experience in exploration and operational issues, particularly in Kenya, Tanzania, Namibia and Eritrea. Mr Myers has been an alternate director of East Africa Resources Limited since June 2010.

### COMPANY SECRETARY

**Mrs Vesna Petrovic**, BComm, CPA

Mrs Petrovic is a Certified Practising Accountant with 10 years' experience in the resources sector and has previously held positions with numerous publicly listed entities. In particular, Mrs Petrovic has significant experience with companies involved in Africa. Mrs Petrovic holds a Bachelor of Commerce, Major in Accounting and Business Law and has completed the Graduate Diploma in Applied Corporate Governance from Chartered Secretaries Australia Ltd.

## Directors' Report continued

30 June 2011

The relevant interest of each director in the shares and options of the company as at 30 June 2011 is as follows:

Directors' Interests	Ordinary Shares	Options over Ordinary Shares
Henry David Kennedy	155,301,968	1,500,000
Roy Barry Rushworth	34,764,181	3,000,000
Ian Raymond (Inky) Cornelius (passed away 14 July 2010)	-	1,500,000
Anthony Robert Frederick Maslin	-	-
Ernest Anthony Myers	-	1,000,000
		<b>Cents</b>
<b>EARNINGS PER SHARE</b>		
Basic earnings (loss) per share		(0.16)
Diluted earnings (loss) per share		(0.16)

### CORPORATE INFORMATION

#### Corporate structure

Pancontinental Oil & Gas NL is a no liability company incorporated and domiciled in Australia.

#### Nature of operations and principal activities

The principal activities during the year of entities within the consolidated entity were exploration for oil and gas.

There have been no significant changes in the nature of those activities during the year.

#### Employees

The consolidated entity had no employees as at 30 June 2011, (2010: no employees). The consolidated entity employs the services of specialised consultants where and when needed.

### OPERATING AND FINANCIAL REVIEW

#### Review of Operations

Offshore Kenya, the L8 joint venture (Pancontinental 15% after farout) received 3D seismic report results which confirmed the oil and gas potential of the giant Mbawa Prospect. Tullow Kenya B.V. signed an agreement to farm in to Pancontinental's interest and Apache Corporation also signed an agreement to farm in to joint venture partner Origin Energy's interest.

In Kenya licence area L6 (Pancontinental 40%), focus shifted to offshore prospects and leads. A Farminee is sought for 3D seismic and drilling.

Two new exploration licences offshore Kenya, L10A and L10B covering approximately 10,000 sq km, were awarded to Pancontinental and its co-venturers, BG Group plc, Premier Oil Investments Limited and Cove Energy plc (Pancontinental 15%).

In Namibia, Pancontinental was awarded Exploration Licence EL 0037 and a corresponding Petroleum Agreement over a large northern area of 17,000 sq km offshore Walvis Basin.

Offshore Carnarvon Basin (WA) the EP 424 / EP 110 joint venture continued efforts to acquire additional acreage over an extension of the Baniyas Prospect (Pancontinental 38.462 %).

In the EP104 area in the Canning Basin (onshore WA, Pancontinental 10%) the joint venture will undertake an examination of the prospectivity of the licence areas and plan the future exploration programme.

Elsewhere in the Canning Basin, the L15 joint venture (Pancontinental 12%) over the West Kora oil field commenced planning for the rehabilitation of the existing production facilities.

The company continued negotiations in Malta with the aim of Pancontinental recommencing offshore exploration activities.

## Directors' Report continued

30 June 2011

### Group Overview

Pancontinental Oil and Gas NL was incorporated in 1985 and listed on the Australian Securities Exchange in 1986.

### Performance Indicators

The board closely monitors the group's operating plans, financial budget and overall performance.

### Dynamics of the Business

The company continues to develop its International and Australian acreage utilising the skills and experience of the existing operators. Whilst the company is committed to further developing existing projects, emerging opportunities are reviewed on a timely basis.

### Risk Management

The group takes a proactive approach to risk management. The board is responsible for ensuring that risks and opportunities are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the board.

The group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee. The board has a number of mechanisms in place to ensure that its objectives and activities are aligned with the risks identified. These include the following:

- Implementation of board approved operating plans and cash flow budgets and board monitoring of progress against these budgets.
- Reports on specific business risks, including such matters as environmental issues and concerns.
- The group has advised each director, manager and consultant that they must comply with a set of ethical standards maintaining appropriate core company values and objectives. Such standards ensure shareholder value is delivered and maintained. Standards cover legal compliance, conflict resolution, privileged information and fair dealing.
- The board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters which have a material effect on the underlying security price. ASX announcements, the web page of the company and other media resources are used to convey such information. The board encourages full participation by shareholders at the AGM and shareholders are requested to vote on board and executive remuneration aggregates as well as the Employee Incentive Scheme.

## Directors' Report continued

30 JUNE 2011

### Operating Results for the Year

Summarised operating results are as follows:

	2011	
	Revenues	Results
	\$	\$
Non-segment and unallocated revenues and results	89,526	(967,031)
Consolidated entity revenues and results from ordinary activities before income tax expense	89,526	(967,031)

### Shareholder Returns

The group is in the exploration phase and so returns to shareholders are primarily measured through capital growth.

	2011	2010	2009	2008	2007	2006
Basic earning per share (cents)	(0.16)	(0.32)	(1.26)	(0.36)	(0.6)	(0.5)

### Investments for Future Performance

The group continues to evaluate opportunities utilising in-house commercial expertise.

### Review of Financial Condition

#### Capital Structure

The group has a sound capital structure from which to continue its development programmes. No options were issued to directors during the year.

#### Treasury policy

The board has not considered it necessary to establish a separate treasury function because of the size and scope of the group's activities.

#### Liquidity and Funding

- The group has sufficient liquidity and funding to continue operations into the foreseeable future.
- All operating plans and budgets are approved by the board and progress is reviewed continuously with reference to the approved plan and budget.

### Statement of Compliance

The above report is based on the guidelines in The Group of 100 Incorporated publication Guide to the Review of Operations and Financial Condition.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the company occurred during the financial year.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 5 July 2011, Pancontinental announced that the Ministry of Mines and Energy of Namibia had signed a Petroleum Agreement ("PA") and granted an Exploration Licence ("EL") to Pancontinental over a large area offshore Northern Namibia. The PA and EL cover 17,295 sq km over prospective trends in the Walvis Basin. Pancontinental holds 85% and is Operator under a Joint Venture Agreement with Namibian co-venturer Paragon Holdings (Pty) Ltd (15%).

Apart from the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

## Directors' Report continued

30 JUNE 2011

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The company's operations are not regulated by a particular environmental regulation under a law of the Commonwealth or of a State or Territory.

### SHARE OPTIONS

#### Unissued shares

At the date of this report there were 13,750,000 unissued ordinary shares under options. Refer to the notes for further details on the options outstanding.

#### Shares issued as a result of the exercise of Options

No options were exercised and no shares were issued as a result during the year.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Since the end of the previous financial year the company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors and officers and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contract. The premiums were paid in respect of the following officers of the company and its controlled entities:

Mr HD Kennedy, Mr RB Rushworth, Mr IR Cornelius, Mr ARF Maslin, Mr EA Myers and Mrs V Petrovic.



## Directors' Report continued

30 JUNE 2011

### REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Pancontinental Oil & Gas NL ("the company").

#### Remuneration philosophy

A description of the remuneration structures in place is as follows: The non-executive directors received a fixed fee for their services. They do not receive performance based remuneration. The chief executive officer received a fixed fee for his respective executive services (with no bonus or other performance-based remuneration), and a separate fixed fee for his services as a director. Directors do not receive any termination or retirement benefits.

#### Remuneration committee

The full board carries out the role of the remuneration committee.

#### Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

#### Non-executive director remuneration

##### Objective

The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

##### Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 29 November 2007 when shareholders approved an aggregate remuneration of \$400,000 per year. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. The non-executive directors of the company can participate in the Employee Option Incentive Plan with shareholder approval. The remuneration of executive and non-executive directors for the period ending 30 June 2011 is detailed in Table 1 of this report.

#### Senior manager and executive director remuneration

##### Objective

The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain executives of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

##### Structure

In determining the level and make up of executive remuneration, the board takes independent advice from external consultants when necessary.

#### Fixed remuneration

##### Objective

The level of fixed remuneration is set so as to provide a base level which is both appropriate to the position and is competitive in the market.

##### Structure

Fixed primary remuneration is paid on a cash basis and there are no fringe benefits or other costs incurred by the company.

## Directors' Report continued

30 JUNE 2011

### Company performance

Company performance is reflected in the movement in the company's share price over time. As the company is in an exploration phase, returns to shareholders will primarily come through share price appreciation. The board's strategy in achieving this aim is to acquire early stage projects which can attract quality joint venture partners.

The company has developed skills in the acquisition of projects and also built strategic alliances with other companies to further develop its project portfolio.

## Directors' Report continued

30 JUNE 2011

Table 1: Director remuneration for the year ended 30 June 2011

	Primary benefits		Post Employment	Equity	Total	Value of options as proportion of Revenue
	Salary & Fees	Cash STI	Superannuation	Options (Issued)		
Henry David Kennedy (Non-Executive Chairman)						
2011	50,000	-	-	-	50,000	-
2010	50,003	-	-	-	50,003	-
Roy Barry Rushworth (Executive Director, Chief Executive Officer)						
2011	415,833	-	-	-	415,833	-
2010	344,500	-	-	-	344,500	-
Ian Raymond (Inky) Cornelius (Non-Executive Director) (Passed away 14 July 2010)						
2011	2,000	-	-	-	2,000	-
2010	46,500	-	-	-	46,500	-
Anthony Robert Frederick Maslin (Non-Executive Director)						
2011	25,806	-	-	-	25,806	-
2010	-	-	-	-	-	-
Ernest Anthony Myers (Executive Finance Director)						
2011	48,000	-	-	-	48,000	-
2010	48,000	-	-	-	48,000	-
<b>Total Remuneration</b>	<b>541,639</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>541,639</b>	<b>-</b>

Table 2: Options granted as part of remuneration for the year ended 30 June 2011  
(in accordance with the Employee Incentive Scheme)

	Issued
Henry David Kennedy	-
Roy Barry Rushworth	-
Ian Raymond (Inky) Cornelius	-
Anthony Robert Frederick Maslin	-
Ernest Anthony Myers	-
<b>Total Options Issued</b>	<b>-</b>

From 1 July 2003, options granted as part of director and management remuneration have been valued using a Black-Scholes option pricing model, in which the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying shares, the current market price of the underlying shares and the expected life of the options are taken into account. See following table for further details. No options were granted to directors during the year.

## Directors' Report continued

30 JUNE 2011

### Fair values of options:

The fair value of each option is estimated on the date of grant using a Black-Scholes option pricing model.

	2011	2010	2009	2008	2007	2006
Expected volatility	-	-	-	113%	112%	77.9%
Risk-free interest rate	-	-	-	6.42%	5.75%	5.32%
Expected life of option	-	-	-	5 years	5 years	5 years

Number of options	Grant date	Vesting date	Weighted average fair value
9,250,000	29 Nov 06	28 May 07	0.06
4,500,000	29 Nov 07	28 May 08	0.05

### END OF REMUNERATION REPORT

### DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings
<b>Number of meetings held:</b>	4
<b>Number of meetings attended:</b>	
Henry David Kennedy	4
Roy Barry Rushworth	4
Ian Raymond (Inky) Cornelius	-
Anthony Robert Frederick Maslin	1
Ernest Anthony Myers	4

### Notes

The directors are of the opinion that it is often more efficient to deal with matters by circular resolutions than by board meetings, and 7 matters were dealt with in such a manner during the year.

### ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

### AUDITOR'S INDEPENDENCE DECLARATION

The auditor independence declaration is set out on the following page and reviews part of the Directors' Report for the year ended 30 June 2011.

### NON-AUDIT SERVICES

Rothsay did not receive any amounts for the provision of non-audit services during the year, although a total of \$4,000 was accrued for taxation services.

Signed in accordance with a resolution of the Directors.



Ernest Anthony Myers  
Director

Perth 29 September 2011

## Directors' Report continued

30 JUNE 2011

### AUDITOR INDEPENDENCE

The directors received the following declaration from the auditor of Pancontinental Oil & Gas NL:

#### Auditor's Independence Declaration to the Directors of Pancontinental Oil & Gas NL

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 30 June 2011 annual financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Mr Graham Swan

Lead Auditor

29 September 2011

## Corporate Governance Statement

30 JUNE 2011

In accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles and Recommendations")<sup>1</sup>, Pancontinental Oil & Gas NL ("the company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Principles and Recommendations, the company has followed each recommendation where the board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the company and the board, resources available and activities of the company. Where, after due consideration, the company's corporate governance practices depart from the ASX Principles and Recommendations, the board has offered full disclosure of the nature of and reason for the adoption of its own practice.

Further information about the company's corporate governance practices is set out on the company's website at [www.pancon.com.au](http://www.pancon.com.au). In accordance with the ASX Principles and Recommendations, information published on the company's website includes charters (for the board and its committees), the company's code of conduct and other policies and procedures relating to the board and its responsibilities.

### EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

During the company's 2010/2011 financial year ("reporting period") the company has followed each of the ASX Principles and Recommendations, other than in relation to the matters specified below.

#### Principle 2

**Recommendation 2.1:** A majority of the board should be independent directors

#### **Notification of Departure:**

Only one director was considered to be independent during the year ended 30 June 2011 – Non-Executive Director Mr Cornelius until 14 July 2010. After Mr Cornelius' sad passing, Mr Maslin was considered to be the only independent director.

#### **Explanation for Departure:**

Given the size and scope of the company's operations the board considers that it is appropriately structured to discharge its duties in a manner that is in the best interests of the company. The board believes its current composition is in line with the long term interests of shareholders. Furthermore, mechanisms are in place so that if a director considers it necessary, they may obtain independent professional advice. The board considers independence, amongst other things, when recommending new directors to the board.

#### Principle 2

**Recommendation 2.2:** The chair should be an independent director

#### **Notification of Departure**

The chair is not considered to be independent.

#### **Explanation for Departure**

Mr Kennedy is not independent by virtue of his substantial shareholding in the company. However, the board considers that Mr Kennedy's interests are aligned with the long term interests of shareholders. Given Mr Kennedy's extensive experience and qualifications, the board believes Mr Kennedy is the most appropriate director to carry out the role of chair.

<sup>1</sup> A copy of the ASX Principles and Recommendations is set out on the company's website under the Section entitled "Corporate Governance".

## Corporate Governance Statement

30 JUNE 2011

### Principle 2

**Recommendation 2.4:** The board should establish a nomination committee

#### **Notification of Departure:**

The full board fulfils the role of a nomination committee.

#### **Explanation for Departure:**

The full board considers those matters that would usually be the responsibility of a nomination committee. The board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee. The board has adopted a nomination committee charter, which it applies when convening as the nomination committee.

### Principle 4

**Recommendation 4.1:** The board should establish an audit committee

**Recommendation 4.2:** Structure of the audit committee

#### **Notification of Departure:**

The full board fulfils the role of an audit committee.

#### **Explanation for Departure:**

The composition of the board is not suitable for the formation of a separate audit committee in accordance with the recommendation. Further, the independent director does not possess the requisite financial expertise recommended in an audit committee. The board has adopted an audit committee charter to assist with its function as an audit committee. The audit committee charter provides that independent directors may meet with the external auditor.

### Principle 7

**Recommendation 7.2:** Implement, manage and report on risk management system

#### **Notification of Departure:**

The board has not received a formal documented report from management on the effectiveness of their management of the company's material business risks other than verbal updates at board meetings.

#### **Explanation for Departure:**

Although a formal report has not been presented to the board, the board has encouraged an increased focus on risk management implementation and reporting by completion of a risk questionnaire and risk register. These documents form the foundation for reporting on the company's risk profile which is vital in developing and strengthening the company's risk management policies.

### Principle 8

**Recommendation 8.1:** The board should establish a remuneration committee

**Recommendation 8.2:** Structure of the remuneration committee

#### **Notification of Departure:**

The board fulfils the function of a remuneration committee.

#### **Explanation for Departure:**

Given the size and composition of the board, it is not practicable that a separate committee be formed. To assist it to carry out its function in relation to remuneration matters, the board has adopted a remuneration committee charter.

## Corporate Governance Statement

30 JUNE 2011

### COMMITTEE MEETINGS

Due to the size of the current board, the functions of the Nomination, Audit and Remuneration Committees were carried out by the full board during the financial year. As such, no separate meetings were held for the Nomination and Remuneration Committees. The board agenda incorporated these items and appropriate discussions were held on each issue at the board meetings.

Details of each of the director's qualifications are set out in the Directors' Report. All of the directors have substantial industry experience and consider themselves to be financially literate. Mr Myers is a Certified Practising Accountant and therefore meets the tests of financial expertise.

### OTHER

#### Skills, Experience, Expertise and term of office of each Director

A profile of each director containing the skills, experience, expertise and term of office of each director is set out in the Directors' Report.

#### Identification of Independent Directors

In considering the independence of directors, the board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("Independence Criteria"). To the extent that it is necessary for the board to consider issues of materiality, the board refers to the thresholds for qualitative and quantitative materiality as adopted by the board and contained in the board charter, which is disclosed in full on the company's website.

Applying the Independence Criteria, the independent director of the company for the year ended 30 June 2011 was Mr Cornelius until his passing on 14 July 2010 and then Mr Maslin was appointed and became the independent director.

#### Corporate Reporting

ASX Principle 7.3 requires the board to disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The board confirms that such assurance has been received.

#### Statement concerning availability of Independent Professional Advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chair, the company will pay the reasonable expenses associated with obtaining such advice.

#### Confirmation of whether performance Evaluation of the Board and its members has taken place and how it was conducted

During the reporting period a formal evaluation of the board and its members was not carried out as it was not considered to be a beneficial procedure given the size and composition of the board and the nature of the company's operations. However, the composition of the board and its suitability to carry out the company's objectives is discussed on an as-required basis during regular meetings of the board and any adjustments are made accordingly.

#### Existence and Terms of any Schemes for Retirement Benefits for Executive and Non-Executive Directors

There are no termination or retirement benefits for non-executive directors.

#### Directors' Terms in Office

<b>Name</b>	<b>Term in office</b>
Henry David Kennedy	12 years
Roy Barry Rushworth	6 years
Ian Raymond Cornelius	18 years
Ernest Anthony Myers	2 years

For additional details regarding board appointments, please refer to the Pancontinental website.



## Corporate Governance Statement

30 JUNE 2011

### Diversity – Board Composition

The mix of skills and diversity for which the company is looking to achieve in membership of the board is one that is as diverse as practicable given the size and scope of the company’s operations. The company has adopted a Diversity Policy which is available on the company’s website under the Corporate Governance section.

### Diversity – Measurable Objectives

The company’s primary objectives with regard to diversity are as follows:

- the company’s composition of board, executive, management and employees to be as diverse as practicable; and
- to provide equal opportunities for all positions within the company and continue the company’s commitment to employment based on merit.

Primary objectives set by the company with regard to diversity have been met, as described below:

- blend of skills – wide range of backgrounds; geology, petroleum exploration, finance and corporate experience;
- cultural backgrounds – Australian, European and American;
- gender – both male and female members; and
- age – the age range spans over 40 years.

The above points relate to the composition of the board, as the company does not have any employees.

### Diversity – Annual Reporting

The company’s annual reporting on the percentage of females in the organisation is as follows:

	<b>% Female</b>
<b>Employees</b>	N/A [no employees]
<b>Executives &amp; Board Members</b>	20%

## Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2011	Notes	CONSOLIDATED	
		2011 \$	2010 \$
Revenue from operating activities			
Interest received		89,526	33,070
Other		-	8,782
<b>Total revenues from operating activities</b>		<b>89,526</b>	<b>41,852</b>
Depreciation and amortisation expenses	2, 6	(1,183)	(1,633)
Salaries, fees and benefits		(322,999)	(380,939)
Audit fees		(45,500)	(35,500)
Generative exploration expenditure and write off	2	(58,387)	(65,542)
Annual report costs		(17,291)	(16,945)
ASX fees		(35,435)	(23,857)
Administration, accounting and secretarial fees		(240,404)	(218,441)
Insurance		(22,167)	(22,420)
Legal fees		(55,425)	(13,493)
Share registry costs		(20,351)	(17,400)
Rent and outgoings		(92,380)	(103,417)
Travel		(100,998)	(45,968)
Other revenues and expenses		(44,037)	(49,537)
Provision for loss on investments		-	(833,414)
<b>Profit/(Loss) before Income Tax Expense</b>		<b>(967,031)</b>	<b>(1,786,654)</b>
Income Tax Expense	3	-	-
<b>Profit/(Loss) for the Period</b>		<b>(967,031)</b>	<b>(1,786,654)</b>
Other Comprehensive Income/(Loss)			
Other comprehensive income		-	-
Other Comprehensive Income/(Loss) for the Period, Net of Income Tax		-	-
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	10	<b>(967,031)</b>	<b>(1,786,654)</b>
Basic earnings per share (cents per share)	15	(0.16)	(0.32)
Diluted earnings per share (cents per share)		(0.16)	(0.32)

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements.

## Statement of Financial Position

AT 30 JUNE 2011	Notes	CONSOLIDATED	
		2011	2010
		\$	\$
<b>CURRENT ASSETS</b>			
Cash assets		<b>5,710,905</b>	1,639,859
Trade and other receivables	4	<b>44,028</b>	19,318
<b>TOTAL CURRENT ASSETS</b>		<b>5,754,933</b>	1,659,177
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	<b>2,404</b>	2,280
Deferred exploration, evaluation and development costs	7	<b>9,879,712</b>	10,129,621
<b>TOTAL NON-CURRENT ASSETS</b>		<b>9,882,116</b>	10,131,901
<b>TOTAL ASSETS</b>		<b>15,637,049</b>	11,791,078
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	<b>187,740</b>	106,993
<b>TOTAL CURRENT LIABILITIES</b>		<b>187,740</b>	106,993
<b>TOTAL LIABILITIES</b>		<b>187,740</b>	106,993
<b>NET ASSETS</b>		<b>15,449,309</b>	11,684,085
<b>EQUITY</b>			
Parent entity interest			
Contributed equity	9a	<b>38,166,253</b>	33,433,998
Reserves	10	<b>764,258</b>	1,187,215
Accumulated losses	10	<b>(23,481,202)</b>	(22,937,128)
Total parent entity interest in equity		<b>15,449,309</b>	11,684,085
<b>TOTAL EQUITY</b>		<b>15,449,309</b>	11,684,085

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.

## Statement of Changes in Equity

AT 30 JUNE 2011

Consolidated	Share Capital	Retained Earnings	Option Reserve	Total Equity
	\$	\$	\$	\$
<b>Balance at 1 July 2010</b>	<b>33,433,998</b>	<b>(22,937,128)</b>	<b>1,187,215</b>	<b>11,684,085</b>
Profit or loss	-	(967,031)	-	(967,031)
Other comprehensive income/(loss)	-	-	-	-
Shares issued (net of costs)	4,732,255	-	-	4,732,255
Share options	-	422,957	(422,957)	-
<b>Balance at 30 June 2011</b>	<b>38,166,253</b>	<b>(23,481,202)</b>	<b>764,258</b>	<b>15,449,309</b>
Balance at 1 July 2009	30,361,641	(21,219,786)	1,256,527	10,398,382
Profit or loss	-	(1,786,654)	-	(1,786,654)
Shares issued (net of costs)	2,238,943	-	-	2,238,943
Shares on acquisition	833,414	-	-	833,414
Share options	-	69,312	(69,312)	-
Balance at 30 June 2010	33,433,998	(22,937,128)	1,187,215	11,684,085

The above Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements.

## Statement of Cash Flows

YEAR ENDED 30 JUNE 2011	Notes	CONSOLIDATED	
		2011	2010
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(1,044,789)	(1,043,732)
Interest received		89,526	38,805
Sundry income – <i>reimbursement of exploration expenditure</i>		1,083,151	283,995
Expenditure on exploration interests		(789,097)	(597,838)
NET CASH FLOWS FROM/(USED IN)			
OPERATING ACTIVITIES	11(a)	(661,209)	(1,318,770)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	6	-	-
NET CASH FLOWS FROM/(USED IN)			
INVESTING ACTIVITIES		-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		5,000,000	2,446,575
Share issue costs		(267,745)	(208,831)
NET CASH FLOWS FROM/(USED IN)			
FINANCING ACTIVITIES		4,732,255	2,237,744
NET INCREASE/(DECREASE) IN CASH HELD		4,071,046	918,974
Add opening cash brought forward		1,639,859	720,804
Effects of exchange rate changes		-	81
CLOSING CASH CARRIED FORWARD	11(b)	5,710,905	1,639,859

The above Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements.

## Notes to the Financial Statements

30 JUNE 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report was authorised for issue by the directors on 30 September 2011.

#### Statement of Compliance

This financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (AASBs), adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. International Financial Reporting Standards (IFRSs) form the basis of AASBs adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS (AIFRS) to distinguish from previous Australian GAAP. The financial report complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

#### Basis of preparation

The report has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuation of non-current assets. The accounting policies adopted are consistent with those of the previous year. The following specific accounting policies have been consistently applied, unless otherwise stated.

##### (a) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

##### (b) Exploration Expenses

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Such costs are carried forward where they are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale, or where activities in the area of interest have not yet reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

##### (c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Pancontinental Oil & Gas NL (the parent entity) and all entities which Pancontinental Oil & Gas NL 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 the part of the reporting period during which the parent company has control.

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

##### (d) Foreign currencies

###### *Translation of foreign currency transactions*

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

All resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

## Notes to the Financial Statements

30 JUNE 2011

### (e) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Interest expense is charged as an expense as it accrues.

### (f) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

### (g) Investments

Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount.

### (h) Recoverable Amount

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write down is expensed in the reporting period in which it occurs.

### (i) Property, plant and equipment

#### *Cost and valuation*

Property, plant and equipment is measured at cost.

#### *Depreciation*

Depreciation is provided on a straight line basis on all property, plant and equipment.

Major depreciation rates are:

	<b>2011</b>	<b>2010</b>
Plant and equipment:	<b>30%</b>	<b>30%</b>

### (j) Joint ventures

Interests in the joint venture operations are brought to account by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

In the company's financial statements, investments in joint venture operations were carried at the lower of cost and recoverable amount.

### (k) Going concern

The directors consider that the going concern basis for the consolidated entity is appropriate and recognise that additional funding is required to ensure the consolidated entity can continue its operations for the twelve month period from the date of this financial report and to fund the continued development of the consolidated entity's exploration assets. This basis has been determined after consideration of the following factors:

- The ability to issue additional share capital under the Corporations Act 2001, if required, by a share purchase plan, share placement or rights issue;
- The option of farming out all or part of the consolidated entity's exploration projects; and
- The ability, if required to dispose of interests in exploration and development assets.

Accordingly, the directors believe that the consolidated entity will obtain sufficient cash inflows to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial statements.

### (l) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

## Notes to the Financial Statements

30 JUNE 2011

### **(m) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

### **(n) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

### **(o) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Rendering of Services*

Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

#### *Interest Revenue*

Control of the right to receive the interest payment. Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

### **(p) Taxes**

Tax-effect accounting is applied using the income statement liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued no provision for potential capital gains tax has been made.

#### *Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### **(q) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are charged against profits on a net basis in their respective categories.



## Notes to the Financial Statements

30 JUNE 2011

### (r) Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (s) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

### (t) Financial Instruments

See financial instruments note for compliance notes with AASB 7, financial instruments : disclosures.

### (u) New accounting standards and interpretations

The financial report is presented in Australian dollars which is the company's functional currency. The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application.

*AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)*

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Company has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and

requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

*AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)*

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Company.

*AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013)*

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

## Notes to the Financial Statements

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Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Company is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific “RDR” disclosures.

*AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Company.

*AASB 2009–14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Company.

*AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB’s annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity’s first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Company.

*AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011)*

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

*AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011)*

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure

## Notes to the Financial Statements

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requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Company.

*AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013)*

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Company has not yet determined any potential impact on the financial statements from adopting AASB 9.

*AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012)*

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Company.

*AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011)*

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Company.

*AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] (applies to periods beginning on or after 1 January 2013)*

This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7.]

This Standard is not expected to impact the Company.

None of the other amendments or Interpretations are expected to affect the accounting policies of the Company.

## Notes to the Financial Statements

30 JUNE 2011

2. DEPRECIATION AND WRITE OFF	Notes	CONSOLIDATED	
		2011	2010
		\$	\$

**Expenses**

Depreciation of non-current assets:			
Office furniture and equipment		1,183	1,633
Generative exploration and write off:			
Exploration, evaluation and development costs		58,387	65,542

3. INCOME TAX	CONSOLIDATED	
	2011	2010
	\$	\$

**(a) Income Tax (Benefit)/Expense**

The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:

Prima facie tax on profit from ordinary activities	(290,109)	(535,996)
<i>Tax effect of permanent differences:</i>		
Other items (net)	-	55,879
Amount not brought to account as a carried forward future income tax benefit	290,109	480,117
<b>Income tax expense attributable to ordinary activities</b>	<b>-</b>	<b>-</b>

**(b) Future Income Tax Benefit not taken into account**

The potential future income tax benefit calculated at 30% in respect of :

Adjustments to carry forward tax losses	-	-
Tax Losses not brought to account	5,267,832	4,929,565
<b>Total</b>	<b>5,267,832</b>	<b>4,929,565</b>

This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

4. RECEIVABLES (CURRENT)	CONSOLIDATED	
	2011	2010
	\$	\$
Sundry receivables	44,028	19,318
<b>Total</b>	<b>44,028</b>	<b>19,318</b>

**(a) Terms and conditions**

- Trade debtors are non-interest bearing and generally on 30 day terms.
- Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

## Notes to the Financial Statements

30 JUNE 2011

## 5. INTERESTS IN SUBSIDIARIES

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2011	2010	2011	2010
		%	%	\$	\$
<b>Starstrike Resources Ltd *</b>	British Virgin Islands	<b>100</b>	100	<b>380,000</b>	380,000
Provision for diminution in value of investment				<b>(380,000)</b>	(380,000)
Loan to Starstrike Resources Ltd				<b>50,096</b>	44,764
Provision for loss on loan to Starstrike Resources Ltd				-	(44,764)
<b>Euro Pacific Energy Pty Ltd</b>	Australia	<b>100</b>	100	<b>2</b>	2
Provision for diminution in value of investment				<b>(2)</b>	(2)
Loan to Euro Pacific Energy Pty Ltd				<b>(165,048)</b>	(165,881)
Provision for loss on loan to Euro Pacific Energy Pty Ltd				-	-
<b>Afrex Ltd *</b>	Saint Lucia	<b>100</b>	100	<b>10,584,107</b>	10,584,106
Provision for diminution in value of investment				<b>(4,489,014)</b>	(4,461,793)
Loan to Afrex Ltd				<b>699,121</b>	592,702
Provision for loss on loan to Afrex Ltd				-	-
<b>Total</b>				<b>6,679,262</b>	6,549,134

\*Indicates companies not audited by Rothsay Chartered Accountants.

## 6. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2011	2010
	\$	\$
Office equipment		
At cost	<b>50,737</b>	49,429
Less: Accumulated depreciation	<b>(48,333)</b>	(47,149)
<b>Total written down amount</b>	<b>2,404</b>	2,280

**Reconciliations**

Reconciliations of the carrying amounts of property, plant and equipment

Office equipment		
Carrying amount opening balance	<b>2,280</b>	3,913
Additions	<b>1,307</b>	-
Depreciation expense	<b>(1,183)</b>	(1,633)
<b>Total written down amount</b>	<b>2,404</b>	2,280

## Notes to the Financial Statements

30 JUNE 2011

## 7. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

CONSOLIDATED  
2011      2010  
\$            \$

Exploration, evaluation and development costs carried forward		
Pre-production:		
exploration and evaluation phases:		
Carrying amount at 1 July	<b>10,129,621</b>	9,765,421
Expenditure during the year	<b>836,297</b>	388,648
Exploration expenditure written off	<b>(3,055)</b>	(24,448)
Recovery of past exploration expenditure *	<b>(1,083,151)</b>	-
Carrying amount at 30 June	<b>9,879,712</b>	10,129,621

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

\* The Company received reimbursement for past exploration costs during the financial year with regard to its Kenyan blocks L8, L10A and L10B.

## 8. TRADE and OTHER PAYABLES (CURRENT)

CONSOLIDATED  
2011      2010  
\$            \$

Trade creditors	<b>187,740</b>	106,993
Total	<b>187,740</b>	106,993

## 9. CONTRIBUTED EQUITY

CONSOLIDATED  
2011      2010  
\$            \$

<b>(a) Issued and paid up capital</b>		
Ordinary shares fully paid	<b>38,166,253</b>	33,433,998
Total	<b>38,166,253</b>	33,433,998

**(b) Movements in shares on issue**

	2011		2010	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	<b>592,286,658</b>	<b>33,433,998</b>	510,050,826	30,361,641
Issued during the year:				
– public equity raising (net costs)	<b>68,493,151</b>	<b>4,732,255</b>	82,235,832	2,238,943
– shares on acquisition	-	-	-	833,414
End of the financial year	<b>66,0779,809</b>	<b>38,166,253</b>	592,286,658	33,433,998

## Notes to the Financial Statements

30 JUNE 2011

## 10. RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>Reserves</b>		
Beginning of the financial year	1,187,215	1,256,527
Directors and employee options issued	-	-
Options expired	(422,957)	(69,312)
End of the financial year	764,258	1,187,215
<b>Accumulated losses</b>		
Beginning of the financial year	(22,937,128)	(21,219,786)
Net loss attributable to members of Pancontinental Oil & Gas NL	(967,031)	(1,786,654)
Share options expired	422,957	69,312
Total available for appropriation	(23,481,202)	(22,937,128)
End of the financial year	(23,481,202)	(22,937,128)

## 11. STATEMENT OF CASH FLOWS

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>(a) Reconciliation of the net loss after tax to the net cash flows from operations</b>		
Net loss	(967,031)	(1,786,654)
<b>Non-Cash Items, Non-Operating Items</b>		
Depreciation of non-current assets	1,183	1,633
Options	-	-
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(24,710)	268,389
(Increase)/decrease in property, plant & equipment	(1,307)	-
(Increase)/decrease in exploration, evaluation & development	249,909	(364,200)
(Increase)/decrease in interests in subsidiaries	-	-
(Decrease)/increase in trade and other payables	80,747	(272,471)
(Decrease)/increase in employee entitlements	-	-
Other non-cash	-	833,604
Effect of exchange rate changes	-	929
Net cash flow from operating activities	(661,209)	(1,318,770)
<b>(b) Reconciliation of cash</b>		
Cash balance comprises:		
- cash assets	5,710,905	1,639,859
Closing cash balance	5,710,905	1,639,859

## 12. EXPENDITURE COMMITMENTS

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>Capital expenditure commitments</b>		
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:		
not later than one year		
- other	460,653	430,653
later than one year and not later than five years		
- other	3,744,326	1,992,628
later than five years		
Total	4,204,979	2,423,281

## Notes to the Financial Statements

30 JUNE 2011

### 13. EMPLOYEE BENEFITS

#### Employee Share Scheme

Information with respect to the number of options under the employee share incentive scheme is as follows:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	23,250,000	0.09	27,225,000	0.10
– expired	(9,500,000)	0.09	(3,975,000)	0.15
Balance at end of year	13,750,000	0.08	23,250,000	0.09

#### Options held at the end of the reporting period

The following table summarises information about options held by directors and employees as at 30 June 2011:

Number of options	Grant date	Expiry date	Weighted average exercise price
9,250,000	29 Nov 06	28 Nov 11	0.0960
4,500,000	29 Nov 07	28 Nov 12	0.0590

### 14. SUBSEQUENT EVENTS

On 5 July 2011, Pancontinental announced that the Ministry of Mines and Energy of Namibia had signed a Petroleum Agreement (“PA”) and granted an Exploration Licence (“EL”) to Pancontinental over a large area offshore Northern Namibia. The PA and EL cover 17,295 sq km over prospective trends in the Walvis Basin. Pancontinental holds 85% and is Operator under a Joint Venture Agreement with Namibian co-venturer Paragon Holdings (Pty) Ltd (15%).

Apart from the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

### 15. EARNINGS PER SHARE

	CONSOLIDATED	
	2011	2010
	\$	\$
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit	(967,031)	(1,786,654)
<b>Adjustments:</b>		
Earnings used in calculating basic and diluted earnings per share	(967,031)	(1,786,654)
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	605,985,288	556,906,878
<b>Effect of dilutive securities:</b>		
Share options	13,750,000	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	619,735,288	556,906,878

### 16. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2011	2010
	\$	\$
Amounts received or due and receivable by Rothsay for:		
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	45,500	35,500
– other services in relation to the entity and any other entity in the consolidated entity	4,000	-
	49,500	35,500



## Notes to the Financial Statements

30 JUNE 2011

### 17. DIRECTOR AND EXECUTIVE DISCLOSURES

#### (a) Details of Specified Directors and Specified Executives

##### (i) Specified Directors

Henry David Kennedy	Non-Executive Chairman
Roy Barry Rushworth	Executive Director, Chief Executive Officer
Ian Raymond (Inky) Cornelius	Non-Executive Director (passed away 14 July 2010)
Ernest Anthony Myers	Executive Finance Director
Anthony Robert Frederick Maslin	Non-Executive Director

##### (ii) Specified Executives

Vesna Petrovic	Company Secretary
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Total remuneration for all non-executive directors, last voted upon by shareholders at the 2007 AGM, is not to exceed \$400,000 per annum and is set with reference to fees paid to other non-executive directors of comparable companies.

Non-executive and executive directors do not receive performance related remuneration but they are eligible to participate in the Employee Option Scheme approved by shareholders.

Directors do not receive any termination or retirement benefits.

#### (b) Remuneration of Specified Directors /Officers

	Salary & Fees	Primary Cash Bonus	Non Monetary benefits	Post Employment Superannuation	Retirement benefits	Equity Options	Other Bonuses	Total
<b>Specified</b>								
<b>Directors/Officers</b>								
Henry David Kennedy								
<b>2011</b>	<b>50,000</b>	-	-	-	-	-	-	<b>50,000</b>
2010	50,003	-	-	-	-	-	-	50,003
Roy Barry Rushworth								
<b>2011</b>	<b>415,833</b>	-	-	-	-	-	-	<b>415,833</b>
2010	344,500	-	-	-	-	-	-	344,500
Ian Raymond (Inky) Cornelius (Passed away 14 July 2010)								
<b>2011</b>	<b>2,000</b>	-	-	-	-	-	-	<b>2,000</b>
2010	46,500	-	-	-	-	-	-	46,500
Anthony Robert Frederick Maslin								
<b>2011</b>	<b>25,806</b>	-	-	-	-	-	-	<b>25,806</b>
2010	-	-	-	-	-	-	-	-
Ernest Anthony Myers								
<b>2011</b>	<b>48,000</b>	-	-	-	-	-	-	<b>48,000</b>
2010	48,000	-	-	-	-	-	-	48,000
Vesna Petrovic								
<b>2011</b>	-	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-	-
<b>Total Remuneration: Specified Directors /Officers</b>								
<b>2011</b>	<b>541,639</b>	-	-	-	-	-	-	<b>541,639</b>
2010	489,003	-	-	-	-	-	-	489,003

Mrs Petrovic received no direct remuneration from the company for her services as company secretary however during the year the company paid fees to Resource Services International (Aust) Pty Limited totalling \$238,000 (2010: \$216,000) for the provision of corporate, accounting and administration services. Mrs Petrovic is employed by Resource Services International (Aust) Pty Limited. See Note 20 for further information.

## Notes to the Financial Statements

30 JUNE 2011

## (c) Remuneration options: Granted and vested during the year

	Granted Number	Grant Date	Terms & Conditions for Each Grant			
			Value per option at grant date (\$)	Exercise Price per share (\$)	First Exercise Date	Last Exercise Date
<b>Specified Directors</b>						
Henry David Kennedy	-	-	-	-	-	-
Roy Barry Rushworth	-	-	-	-	-	-
Ian Raymond (Inky) Cornelius (passed away 14 July 2010)	-	-	-	-	-	-
Anthony Robert Frederick Maslin	-	-	-	-	-	-
Ernest Anthony Myers	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-

## (d) Option holdings of specified directors and specified executives

	Balance at beginning of period	Granted as Remuneration	Options Exercised/ (Expired)	Net Change Other	Balance at end of period
	1 July 2010				30 June 2011
<b>Specified Directors</b>					
Henry David Kennedy	2,250,000	-	(750,000)	-	1,500,000
Roy Barry Rushworth	4,500,000	-	(1,500,000)	-	3,000,000
Ian Raymond (Inky) Cornelius (passed away 14 July 2010)	2,250,000	-	(750,000)	-	1,500,000
Anthony Robert Frederick Maslin	-	-	-	-	-
Ernest Anthony Myers	2,000,000	-	(1,000,000)	-	1,000,000
<b>Total</b>	<b>11,000,000</b>	-	<b>(4,000,000)</b>	-	<b>7,000,000</b>

## (e) Shareholdings of Specified Directors and Specified Executives

	Balance 1 July 2010	Acquisitions (Disposals)	Balance 30 June 2011
Ordinary Shares held in Pancontinental Oil & Gas NL			
<b>Specified Directors</b>			
Henry David Kennedy	155,301,968	-	155,301,968
Roy Barry Rushworth	34,764,181	-	34,764,181
Ian Raymond (Inky) Cornelius	-	-	-
Anthony Robert Frederick Maslin	-	-	-
Ernest Anthony Myers	-	-	-
<b>Total</b>	<b>190,066,149</b>	-	<b>190,066,149</b>

## Notes to the Financial Statements

30 JUNE 2011

### 18. SEGMENT INFORMATION

#### **Segment accounting policies**

The economic entity operates predominately in the petroleum exploration industry in the Australasian-Pacific and the North and East African geographic region, however internal reporting is conducted on an entity wide basis. As such, segment information is presented on the same basis as that used for internal reporting purposes provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of directors who make strategic decisions.

### 19. FINANCIAL INSTRUMENTS

#### **Financial risk management**

##### **Overview:**

The company and group have exposure to the following risks from their use of financial instruments:

- (a) credit risk
- (b) liquidity risk
- (c) market risk

This note presents information about the company's and group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

##### **(a) Credit risk:**

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from joint venture re-charges and recuperations of cost. For the company it arises from receivables due from subsidiaries and re-charges to joint venture partners.

##### **(i) Trade and other receivables:**

The group operates predominantly in the oil and gas exploration sector, it does not have trade receivables and is therefore not exposed to credit risk in relation to trade receivables.

The company's and group's exposure to credit risk is influenced directly and indirectly by the individual characteristics of each joint venture. The balance of any outstanding amounts is monitored and payments are received promptly from joint venture partners.

The company has established an allowance for impairment that represents their estimate of incurred losses in respect of intra-group loans. The management does not expect any counterparty to fail to meet its obligations.

Geographically, there is no concentration of credit risk.

## Notes to the Financial Statements

30 JUNE 2011

### 19. FINANCIAL INSTRUMENTS (cont'd)

#### Exposure to credit risk

The carrying amount of the company's and group's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Consolidated	Note	Carrying amount	
		2011	2010
		\$	\$
Trade and other receivables	4	44,028	19,318
Cash and cash equivalents		5,710,905	1,639,859
<b>Total</b>		<b>5,754,933</b>	<b>1,659,177</b>

#### Impairment losses:

None of the company's or group's receivables are past due at 30 June 2011, (2010: nil).

An impairment write down in respect of inter-group loans and shares was recognised during the current year from an analysis of the subsidiaries respective financial positions. The total impairment write down recognised through impairment of loans to subsidiaries and shares held in subsidiaries during the current period was \$17,542 (2010: \$858,947).

Whilst the loans were not payable at 30 June 2011 a provision for impairment based/reversed on the subsidiaries financial position was carried forward from previous periods. The balance of this provision may vary due to performance of a subsidiary in a given year.

#### (b) Liquidity risk:

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group manages liquidity risk by maintaining adequate cash reserves through continuously monitoring forecast and actual cash flows.

#### (c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### (i) Currency risk:

The group is exposed to currency risk on investments, and foreign currency denominated purchases in a currency other than the respective functional currencies of group entities, primarily the Australian dollar (AUD). The other currency that these transactions are denominated in is the (USD).

The group has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency.

## Notes to the Financial Statements

30 JUNE 2011

### 19. FINANCIAL INSTRUMENTS (cont'd)

#### Exposure to currency risk:

The group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

AUD	30 June 2011			30 June 2010		
	AUD	USD	Total	AUD	USD	Total
Trade and other receivables	19,318	-	19,318	19,318	-	19,318
Trade and other payables	(187,740)	-	(187,740)	(106,993)	-	(106,993)
<b>Net balance sheet exposure</b>	<b>(168,422)</b>	<b>-</b>	<b>(168,422)</b>	<b>(87,675)</b>	<b>-</b>	<b>(87,675)</b>

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
AUD : USD	0.989	0.882	1.060	0.856

#### Sensitivity analysis:

A 10 percent strengthening of the Australian dollar against the USD at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

Effect in AUD	Consolidated	
	Equity	Profit or loss
<b>30 June 2011</b>		
10% strengthening	-	-
<b>30 June 2010</b>		
10% strengthening	-	-

A 10 percent weakening of the Australian dollar against the USD at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### Interest rate risk:

At balance date the group had minimal exposure to interest rate risk, through its cash and equivalents held within financial institution.

	Consolidated Carrying Amount	
	30 June 2011	30 June 2010
<b>Variable rate instruments</b>		
Cash and cash equivalents	5,710,905	1,639,859

#### Fair value sensitivity analysis for fixed rate instruments:

The company and group do not account for any fixed rate financial assets at fair value through profit or loss. Therefore, a change in interest rates at reporting date would not affect profit or loss or equity.

## Notes to the Financial Statements

30 JUNE 2011

## 19. FINANCIAL INSTRUMENTS (cont'd)

**Fair value sensitivity analysis for variable rate instruments:**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

Consolidated	Profit or loss		Equity	
	100 bp increase	100bp decrease	100 bp increase	100 bp decrease
<b>30 June 2011</b>				
Cash and cash equivalents	-	-	-	-
<b>30 June 2010</b>				
Cash and cash equivalents	-	-	-	-

**Fair values:**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Consolidated	30 June 2011		30 June 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	44,028	44,028	19,318	19,318
Cash and cash equivalents	5,710,905	5,710,905	1,639,859	1,639,859
Trade and other payables	(187,740)	(187,740)	(106,993)	(106,993)
	<b>5,567,193</b>	<b>5,567,193</b>	1,552,184	1,552,184

The basis for determining fair values is disclosed in note [ 1 ].

**Capital Management:**

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests.

	2011	2010
<b>Equity attributable to shareholders of the Company</b>		
Minorities	-	-
Equity	15,449,309	11,684,085
Total assets	15,637,049	11,791,078
Equity ratio in %	98.80%	99.09%
Average equity	13,566,697	11,041,234
Net Profit	(967,031)	(1,786,654)
Return on Equity in %	(7.13)%	(16.18)%

There were no changes in the group's approach to capital management during the year.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

## Notes to the Financial Statements

30 JUNE 2011

### 20. RELATED PARTY

- (a) During the year the company paid fees to Resource Services International Limited, a company in which Mr Kennedy has a financial interest, for consulting services. The amount paid to was \$50,000 (2010: \$50,003). Refer note 17.
- (b) During the year the company paid fees to Goldtrek Pty Ltd, trustee for the Lewis Trust, of which Mr Cornelius is a beneficiary, for consulting services. The amount paid to Goldtrek Pty Ltd was \$2,000 (2010: \$46,500). Refer note 17.
- (c) During the year the company paid fees to Resource Services International (Aust) Pty Limited, a company of which Mr Myers is a director, to cover the provision of corporate, accounting and administration services. The amount paid to Resource Services International (Aust) Pty Limited was \$238,000 (2010: \$216,000). Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The fees are not related to the management of the company, therefore no amounts are attributable to directors, and have not been included in directors' remuneration.
- (d) The company has effected Directors and Officers Liability Insurance.

### 21. PARENT INFORMATION

The Group has applied amendments to the Corporations Act (2001) which remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures below.

AT 30 JUNE 2011

	2011	2010
	\$	\$
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
Profit/(Loss) for the period	<b>(914,717)</b>	(1,768,817)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>(914,717)</b>	(1,768,817)
	2011	2010
	\$	\$
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>Assets</b>		
Current assets	<b>5,710,905</b>	1,628,116
<b>TOTAL ASSETS</b>	<b>15,520,246</b>	11,623,962
<b>Liabilities</b>		
Current liabilities	<b>185,740</b>	106,993
<b>TOTAL LIABILITIES</b>	<b>185,740</b>	106,993
<b>Equity</b>		
Contributed equity	<b>38,166,253</b>	33,433,998
Reserves	<b>764,258</b>	1,187,215
Accumulated losses	<b>(23,596,005)</b>	(23,104,245)
<b>TOTAL EQUITY</b>	<b>15,334,506</b>	11,516,969

## Directors' Declaration

In accordance with a resolution of the directors of Pancontinental Oil & Gas NL, I state that:

- (1) In the opinion of the directors:
  - (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2011.

On behalf of the Board



Ernest Anthony Myers  
Director

Perth 29 September 2011





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## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PANCONTINENTAL OIL & GAS NL**

### **Report on the financial report**

We have audited the accompanying financial report of Pancontinental Oil & Gas NL (the Company") which comprises the balance sheet as at 30 June 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

### **Directors Responsibility for the Financial Report**

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) 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. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Independence**

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the *Corporations Act 2001*.



Chartered Accountants

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



**Audit opinion**

In our opinion the financial report of Pancontinental Oil & Gas NL is in accordance with the *Corporations Act 2001*, including:

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and  
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

**Report on the remuneration report**

We have audited the remuneration report included in the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Audit opinion**

In our opinion the remuneration report of Pancontinental Oil & Gas NL for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Graham R Swan  
Partner

Dated 29 September 2011