

# Pancontinental Oil & Gas NL

ABN 95 003 029 543

Annual Financial Report

for the year ended 30 June 2012

## 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

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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

## Contents

Directors' Report	3
Corporate Governance Statement	13
Statement of Comprehensive Income	17
Statement of Financial Position	18
Statement of Changes in Equity	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Directors' Declaration	38
Independent Audit Report	39

## Directors' Report

30 June 2012

Your directors submit their report for the year ended 30 June 2012.

### 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 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 over 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 2012

The relevant interest of each director in the shares and options of the company as at 30 June 2012 is as follows:

Directors' Interests	Ordinary Shares	Options over Ordinary Shares
Henry David Kennedy	133,301,602	1,500,000
Roy Barry Rushworth	35,335,610	3,000,000
Anthony Robert Frederick Maslin	14,583	-
Ernest Anthony Myers	285,715	-
		<b>Cents</b>
<b>EARNINGS PER SHARE</b>		
Basic earnings (loss) per share		(0.23)
Diluted earnings (loss) per share		(0.23)

### 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 activity during the year of entities within the consolidated entity was 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 2012, (2011: no employees). The consolidated entity employs the services of specialised consultants where and when needed.

### OPERATING AND FINANCIAL REVIEW

#### Review of Operations

##### *Kenya L8 [15%]*

During the year, Pancontinental announced the completion of a farmout of part of its interest in Kenya licence L8. The farmout to Tullow Kenya B.V. ("Tullow"), a wholly owned subsidiary of Tullow Oil plc was finalised by the signed consent of the Minister of Energy of Kenya and by the satisfaction of other conditions precedent. Tullow's interest of 10% was transferred from Afrex Ltd, a wholly owned subsidiary of Pancontinental.

A 3D seismic survey was completed over the Nanaa lead in licence L8 in March 2012. The survey is in addition and immediately adjacent to the earlier Mbawa 3D survey.

Final preparations for the drilling of the Mbawa prospect were carried out during the year, with drilling commencing post year end.

##### *Kenya L6 [40%]*

Tenders for the Kifaru prospect 3D seismic survey were sought during the year, with the seismic survey of 778 sq km completed in July 2012. Pancontinental expects that the 3D survey will lead to the identification of one or more locations for drilling in 2013/2014.

##### *Kenya L10A & L10B [15%]*

Mid January, in areas L10A and L10B, extensive new 3D and 2D offshore seismic surveys were completed. The Eastern section of the licence areas was covered by 3D whereas 2D covered the Western parts of the licence area. Processing and interpretation continued after year end.

The 2D and 3D followed up more than ten strong leads previously identified in a prospectivity review.

## Directors' Report continued

30 June 2012

### *Namibia EL 0037 [95% post transfer]*

Prior to year end, Pancontinental negotiated acquiring 10% of Paragon Holdings (Pty) Ltd's ("Paragon") 15% interest in exchange for US \$4 million. US \$2 million was paid immediately and a further US \$2 million will be paid on the earlier of: 1) farmout; or 2) after six months from the date of transfer. The transaction which received Ministerial approval post year end will see Pancontinental holding 95% of the interest in EL 0037 and Paragon 5%. Paragon's 5% interest will be "free carried" until the commencement of the development of any discovery.

### *Australia EP 104/R1 [10%]*

In the Canning Basin, prospectivity of the licence areas continued to be assessed by the EP 104 / R1 joint ventures. Going forward, Pancontinental will consider the value of the project and future potential if any.

### *Australia L15 [12%]*

Elsewhere in the Canning Basin, rehabilitation of the West Kora oil field production facility was contemplated by the L15 joint venture. Pancontinental believes with current higher oil prices and improvements in technology, revived production from the oil field could be feasible in the future.

### *Australia EP 424 [38.462%]*

In the Carnarvon Basin, commercial negotiations to gain access to the entire Baniyas prospect have reached a point where the Operator is of the view that there is little likelihood that the adjoining acreage can be secured.

Following a technical review of the Baniyas potential and due to the absence of success in extending Joint Venture access over all of the Baniyas Prospect, the company will consider selling or otherwise disposing of the licence.

### *Australia EP 110 [38.462%]*

Also in the Carnarvon Basin, the EP 110 joint venture considered a further review aimed at outlining possible onshore leads and prospects.

## 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 2012

### Operating Results for the Year

Summarised operating results are as follows:

	2012	
	Revenues	Results
	\$	\$
Non-segment and unallocated revenues and results	435,903	(1,805,733)
Consolidated entity revenues and results from ordinary activities before income tax expense	435,903	(1,805,733)

### Shareholder Returns

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

	2012	2011	2010	2009	2008	2007
Basic earning per share (cents)	(0.23)	(0.16)	(0.32)	(1.26)	(0.36)	(0.6)

### Investments for Future Performance

The group continues to evaluate opportunities utilising in-house commercial expertise as well as corporate advice.

### Review of Financial Condition

#### Capital Structure

The group has a sound capital structure from which to continue its development programmes.

During the year, the company successfully raised over \$56 million dollars (net of costs) by way of share placements, a share purchase plan and exercise of options as detailed below:

Share Capital	Number of shares	\$
Beginning of the financial year	660,779,809	38,166,253
Issued during the year:		
– Placement (net of costs)	457,142,858	56,323,935
– Share Purchase Plan (net of costs)	3,271,427	512,168
– Exercise of Options (net of costs)	2,250,000	129,750
End of the financial year	1,123,444,094	95,132,106

Movements in the options of the company during the year are as per below:

Option Reserve	Number of options	Weighted average exercise price
Balance at beginning of year	13,750,000	0.08
– expired	(9,250,000)	0.10
– exercised	(2,250,000)	0.59
– issued	2,250,000	0.13
Balance at end of year	4,500,000	0.09

#### 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.

## Directors' Report continued

30 JUNE 2012

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Significant events after balance date include:

#### *12 July 2012 – Kenya L6*

In the company's Kenya L6 offshore exploration licence, 3D seismic data was acquired post financial year end. The data acquisition covered a number of prospects, in particular the Kifaru Prospect towards the south of the licence area. Processing and interpretation of the data in the coming months may provide potential prospects for drilling going forward.

#### *19 July 2012 – Namibia EL 0037*

The company increased its Namibian acreage by acquiring an additional 10% of co-venturer Paragon Holdings Limited's ("Paragon") interest in the EL 0037 licence. The purchase price of the acquisition was US \$4 million, with US \$2 million payable immediately and the remaining US \$2 million upon the earlier of; 1) Pancontinental farming out an interest in the licence: or 2) six months after the date of the transaction.

#### *31 July 2012 - Fundraising*

The company further increased its cash reserves by announcing that the shortfall from the April 2012 Share Purchase Plan was to be placed with sophisticated investors as well as international and domestic institutional clients of brokers Hartleys Limited. 25,300,002 shares were placed at \$0.175, raising \$4,427,500.

#### *13 August 2012 – Kenya L8*

Operator Apache Corporation, on behalf of the Kenya L8 joint venture commenced drilling the Mbawa prospect in August 2012. On 10 September 2012, Pancontinental announced that at a depth of 2,553m the Mbawa well encountered approximately 52 net metres of natural gas pay in porous Cretaceous sandstones. The gas discovered by drilling the Mbawa well was the first of its kind offshore Kenya. Total depth of 3,151m was reached on 12 September 2012, however the deeper target did not contain hydrocarbons. Further work continues to assess the potential of the gas encountered at 2,553m.

#### *24 August 2012 - Corporate*

The company provided shareholders with a Notice of Meeting for 27 September 2012 where they will be asked to vote on two resolutions with regard to the adoption of a new constitution for the company.

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.

### 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 other than the following:

#### *Carbon Tax*

The Clean Energy Act will introduce a carbon pricing mechanism into the Australian economy from 1 July 2012. The carbon emissions from facilities in which Pancontinental has an interest may attract the initial price set by Government of \$23 per tonne CO<sub>2</sub> equivalent. In the next two years the carbon price will rise with inflation and from 1 July 2015 the carbon price will no longer be fixed by the Australian Government, but set by the market.

Preliminary estimates of the impact of the carbon tax on the group are currently being reviewed. However, the actual cost to the company will be subject to many variables including the actual amount of carbon dioxide emissions, the application of the legislation by the government and the outcome of audit processes.

#### *Petroleum Resource Rent Tax Legislation*

Petroleum Resource Rent Tax (PRRT) has applied to the majority of offshore petroleum projects since 1987. As of 1 July 2012, an extension to the PRRT was implemented broadening the regime to include coal seam gas, tight gas and oil shale projects as well as expanding to the North West Shelf project.

PRRT is payable on the taxable profit in relation to a petroleum project. If a company has an entitlement to assessable petroleum receipts from a production licence, they will have a petroleum project.

Obligations under PRRT are required to be met by companies with interests in joint ventures in the same manner as those with an interest in a non-joint venture operation. As such, each participant within a joint venture arrangement has individual obligations under PRRT and are required to lodge their own starting base return and choose their own starting base valuation method.



## Directors' Report continued

30 JUNE 2012

At present, Pancontinental's group operations will not be impacted by the PRRT legislation. However, should the level of operations change during the coming financial year, Pancontinental will again conduct a review of its PRRT obligations.

### 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 4,500,000 unissued ordinary shares under options. Refer to the notes for further details on the options outstanding.

During the year, 9,250,000 options expired, 2,250,000 were exercised (as per below) and 2,250,000 new options issued.

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

2,250,000 options were exercised with shares issued as a result, during the financial 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 ARF Maslin, Mr EA Myers and Mrs V Petrovic.

## Directors' Report continued

30 JUNE 2012

### REMUNERATION REPORT (Audited)

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 2012 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. It is the board's policy that employment contracts are only entered into with the chief executive officer and with key executives. Details of the CEO's contract are as follows:

Basic Sum:	\$550,000
Capacity:	Chief Executive Officer
Commencement Date:	1 July 2011
Termination Period:	6-12 months

#### 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.

#### 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 2012

Table 1: Director remuneration for the year ended 30 June 2012

	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)						
2012	50,000	-	-	63,726	113,726	14.6%
2011	50,000	-	-	-	50,000	-
Roy Barry Rushworth (Executive Director, Chief Executive Officer)						
2012	550,000	-	-	127,453	677,453	29.2%
2011	415,833	-	-	-	415,833	-
Ian Raymond (Inky) Cornelius (Non-Executive Director) (Passed away 14 July 2010)						
2012	-	-	-	-	-	-
2011	2,000	-	-	-	2,000	-
Anthony Robert Frederick Maslin (Non-Executive Director)						
2012	48,000	-	-	-	48,000	-
2011	25,806	-	-	-	25,806	-
Ernest Anthony Myers (Executive Finance Director)						
2012	48,000	-	-	-	48,000	-
2011	48,000	-	-	-	48,000	-
<b>Total Current Year Remuneration</b>	<b>696,000</b>	<b>-</b>	<b>-</b>	<b>191,179</b>	<b>887,179</b>	<b>-</b>

Table 2: Options granted as part of remuneration for the year ended 30 June 2012  
(in accordance with the Employee Incentive Scheme)

	Issued
Henry David Kennedy	750,000
Roy Barry Rushworth	1,500,000
Anthony Robert Frederick Maslin	-
Ernest Anthony Myers	-
<b>Total Options Issued</b>	<b>2,250,000</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. 2,250,000 options were granted to directors during the year.

**Fair values of options:**

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

	2012	2011	2010	2009	2008	2007
Expected volatility	120%	-	-	-	113%	112%
Risk-free interest rate	3.57%	-	-	-	6.42%	5.75%
Expected life of option	3 years	-	-	-	5 years	5 years

Number of options	Grant date	Vesting date	Weighted average fair value
2,250,000	29 Nov 07	28 May 08	0.05
2,250,000	29 Nov 11	28 May 12	0.08

## Directors' Report continued

30 JUNE 2012

### 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:

	<b>Directors' Meetings</b>
<b>Number of meetings held:</b>	2
<b>Number of meetings attended:</b>	
Henry David Kennedy	2
Roy Barry Rushworth	2
Anthony Robert Frederick Maslin	1
Ernest Anthony Myers	2

#### 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 21 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 2012.

#### NON-AUDIT SERVICES

Rothsay received \$3,300 (including GST) for the provision of non-audit services during the year and a further \$1,000 was accrued for taxation services.

Signed in accordance with a resolution of the Directors.



Ernest Anthony Myers  
Director

Perth 27 September 2012

## Directors' Report continued

30 JUNE 2012

### 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 2012 annual financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Mr Graham Swan

Lead Auditor

27 September 2012

## Corporate Governance Statement

30 JUNE 2012

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 2011/2012 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:**

Currently only one of the four directors is considered to be independent – Mr Maslin.

Messrs Rushworth and Myers are executives and Mr Kennedy, a substantial shareholder.

##### **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.

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<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 2012

### 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 risk management system has not been implemented, the board has encouraged an increased focus on risk management during the year. Frequent discussions and reviews of the various risks that the Pancontinental group may be exposed to are regularly carried out. The company is committed to further 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 2012

### 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 may incorporate these items and appropriate discussions held 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 current financial year was Mr Maslin.

#### 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

<u>Name</u>	<u>Term in office</u>
Henry David Kennedy	13 years
Roy Barry Rushworth	7 years
Ernest Anthony Myers	3 years
Anthony Robert Frederick Maslin	1 year

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



## Corporate Governance Statement

30 JUNE 2012

### 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:

	% Female	
	2012	2011
Employees	N/A [no employees]	N/A [no employees]
Executives & Board Members	20%	20%

## Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2012	Notes	CONSOLIDATED	
		2012	2011
		\$	\$
Revenue from operating activities			
Interest received		430,403	89,526
Other		5,500	-
<b>Total revenues from operating activities</b>		<b>435,903</b>	<b>89,526</b>
Depreciation and amortisation expenses	2, 6	(1,651)	(1,183)
Salaries, fees and benefits		(461,773)	(322,999)
Audit fees		(40,500)	(45,500)
Generative exploration expenditure and write off	2	(42,035)	(58,387)
Annual report costs		(6,828)	(17,291)
ASX fees		(40,944)	(35,435)
Administration, accounting and secretarial fees		(291,764)	(240,404)
Insurance		(21,561)	(22,167)
Legal fees		(11,699)	(55,425)
Share registry costs		(42,878)	(20,351)
Rent and outgoings		(96,937)	(92,380)
Travel		(132,841)	(100,998)
Other revenues and expenses		(1,050,265)	(44,037)
Provision for loss on investments		-	-
<b>Profit/(Loss) before Income Tax Expense</b>		<b>(1,805,773)</b>	<b>(967,031)</b>
Income Tax Expense	3	-	-
<b>Profit/(Loss) for the Period</b>		<b>(1,805,773)</b>	<b>(967,031)</b>
Other Comprehensive Income/(Loss)			
Other comprehensive income		-	-
<b>Other Comprehensive Income/(Loss) for the Period, Net of Income Tax</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	10	<b>(1,805,773)</b>	<b>(967,031)</b>
Basic earnings per share (cents per share)	15	(0.23)	(0.16)
Diluted earnings per share (cents per share)		(0.23)	(0.16)

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 2012	Notes	CONSOLIDATED	
		2012	2011
		\$	\$
<b>CURRENT ASSETS</b>			
Cash assets		<b>47,722,233</b>	5,710,905
Trade and other receivables	4	<b>98,582</b>	44,028
<b>TOTAL CURRENT ASSETS</b>		<b>47,820,815</b>	5,754,933
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	<b>3,598</b>	2,404
Deferred exploration, evaluation and development costs	7	<b>23,211,960</b>	9,879,712
<b>TOTAL NON-CURRENT ASSETS</b>		<b>23,215,558</b>	9,882,116
<b>TOTAL ASSETS</b>		<b>71,036,373</b>	15,637,049
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	<b>235,805</b>	187,740
<b>TOTAL CURRENT LIABILITIES</b>		<b>235,805</b>	187,740
<b>TOTAL LIABILITIES</b>		<b>235,805</b>	187,740
<b>NET ASSETS</b>		<b>70,800,568</b>	15,449,309
<b>EQUITY</b>			
Parent entity interest			
Contributed equity	9a	<b>95,132,106</b>	38,166,253
Reserves	10	<b>298,956</b>	764,258
Accumulated losses	10	<b>(24,630,494)</b>	(23,481,202)
Total parent entity interest in equity		<b>70,800,568</b>	15,449,309
<b>TOTAL EQUITY</b>		<b>70,800,568</b>	15,449,309

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 2012

Consolidated	Share Capital	Retained Earnings	Option Reserve	Total Equity
	\$	\$	\$	\$
<b>Balance at 1 July 2011</b>	<b>38,166,253</b>	<b>(23,481,202)</b>	<b>764,258</b>	<b>15,449,309</b>
Profit or loss	-	(1,805,773)	-	(1,805,773)
Other comprehensive income/(loss)	-	-	-	-
Shares issued (net of costs)	56,965,853	-	-	56,965,853
Share options	-	656,481	(465,302)	191,179
<b>Balance at 30 June 2012</b>	<b>95,132,106</b>	<b>(24,630,494)</b>	<b>298,956</b>	<b>70,800,568</b>
Balance at 1 July 2010	33,433,998	(22,937,128)	1,187,215	11,684,085
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)	-
Balance at 30 June 2011	38,166,253	(23,481,202)	764,258	15,449,309

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 2012	Notes	CONSOLIDATED	
		2012	2011
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(1,686,512)	(1,044,789)
Interest received		430,256	89,526
Sundry income		5,500	1,083,151
Expenditure on exploration interests		(13,713,309)	(789,097)
<b>NET CASH FLOWS FROM/(USED IN)</b>			
<b>OPERATING ACTIVITIES</b>	11(a)	<b>(14,964,065)</b>	<b>(661,209)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	6	(3,803)	-
<b>NET CASH FLOWS FROM/(USED IN)</b>			
<b>INVESTING ACTIVITIES</b>		<b>(3,803)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		60,705,250	5,000,000
Share issue costs		(3,725,804)	(267,745)
<b>NET CASH FLOWS FROM/(USED IN)</b>			
<b>FINANCING ACTIVITIES</b>		<b>56,979,446</b>	<b>4,732,255</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>42,011,578</b>	<b>4,071,046</b>
Add opening cash brought forward		5,710,905	1,639,859
Effects of exchange rate changes		(250)	-
<b>CLOSING CASH CARRIED FORWARD</b>	11(b)	<b>47,722,233</b>	<b>5,710,905</b>

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 2012

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report was authorised for issue by the directors on 27 September 2012.

#### 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 2012

### (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:

	2012	2011
Plant and equipment:	30%	30%

### (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 2012

### **(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 2012

### (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. A number of new standards, amendments to standards and interpretations are effective for the current annual report period, however, none have been applied in preparing these consolidated financial statements. The standards are not expected to have a material impact on the accounting policies or consolidated financial statements of the group.

## Notes to the Financial Statements

30 JUNE 2012

2. DEPRECIATION AND WRITE OFF	Notes	CONSOLIDATED	
		2012	2011
		\$	\$

**Expenses**

Depreciation of non-current assets:			
Office furniture and equipment		1,651	1,183
Generative exploration and write off:			
Exploration, evaluation and development costs		42,035	58,387

3. INCOME TAX	CONSOLIDATED	
	2012	2011
	\$	\$

**(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	(541,732)	(290,109)
<i>Tax effect of permanent differences:</i>		
Other items (net)	-	-
Amount not brought to account as a carried forward future income tax benefit	541,732	290,109
<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	5,965,816	5,267,832
<b>Total</b>	<b>5,965,816</b>	<b>5,267,832</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	
	2012	2011
	\$	\$
Sundry receivables	98,582	44,028
<b>Total</b>	<b>98,582</b>	<b>44,028</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 2012

## 5. INTERESTS IN SUBSIDIARIES

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2012	2011	2012	2011
		%	%	\$	\$
<b>Euro Pacific Energy Pty Ltd</b>	Australia	<b>100</b>	100	<b>2</b>	2
Provision for diminution in value of investment				(2)	(2)
Loan to Euro Pacific Energy Pty Ltd				(165,048)	(165,048)
Provision for loss on loan to Euro Pacific Energy Pty Ltd				-	-
<b>Pancontinental Namibia Pty Ltd</b>	Australia	<b>100</b>	-	<b>1</b>	-
Provision for diminution in value of investment				(1)	-
Loan to Pancontinental Namibia Pty Ltd				6,351	-
Provision for loss on loan to Pancontinental Namibia P/L				(1,207)	-
<b>Afrex Ltd *</b>	Saint Lucia	<b>100</b>	100	<b>10,584,107</b>	10,584,107
Provision for diminution in value of investment				(4,514,920)	(4,489,014)
Loan to Afrex Ltd				4,682,033	699,121
Provision for loss on loan to Afrex Ltd				-	-
<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				(380,000)	(380,000)
Loan to Starstrike Resources Ltd				54,760	50,096
Provision for loss on loan to Starstrike Resources Ltd				-	-
<b>Total</b>				<b>10,646,076</b>	6,679,262

\*Indicates companies not audited by Rothsay Chartered Accountants.

## 6. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2012	2011
	\$	\$
Office equipment		
At cost	53,582	50,737
Less: Accumulated depreciation	(49,984)	(48,333)
<b>Total written down amount</b>	<b>3,598</b>	2,404
<b>Reconciliations</b>		
Reconciliations of the carrying amounts of property, plant and equipment		
Office equipment		
Carrying amount opening balance	2,404	2,280
Additions	2,845	1,307
Depreciation expense	(1,651)	(1,183)
<b>Total written down amount</b>	<b>3,598</b>	2,404

## Notes to the Financial Statements

30 JUNE 2012

## 7. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

CONSOLIDATED  
2012      2011  
\$            \$

Exploration, evaluation and development costs carried forward		
Pre-production:		
exploration and evaluation phases:		
Carrying amount at 1 July	9,879,712	10,129,621
Expenditure during the year	13,410,027	836,297
Exploration expenditure written off	(21,187)	(3,055)
Recovery of past exploration expenditure *	(56,592)	(1,083,151)
Carrying amount at 30 June	<b>23,211,960</b>	9,879,712

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 ended 30 June 2011 with regard to its Kenyan blocks L8, L10A and L10B. For the year ended 30 June 2012, the recoveries relate to ordinary joint venture recharges.

## 8. TRADE and OTHER PAYABLES (CURRENT)

CONSOLIDATED  
2012      2011  
\$            \$

Trade creditors	235,805	187,740
Total	<b>235,805</b>	187,740

## 9. CONTRIBUTED EQUITY

CONSOLIDATED  
2012      2011  
\$            \$

<b>(a) Issued and paid up capital</b>		
Ordinary shares fully paid	95,132,106	38,166,253
Total	<b>95,132,106</b>	38,166,253

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

	2012		2011	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	660,779,809	38,166,253	592,286,658	33,433,998
Issued during the year:				
– Placement (net of costs)	457,142,858	56,323,935	-	-
– Share Purchase Plan (net of costs)	3,271,427	512,168	-	-
– Exercise of Options (net of costs)	2,250,000	129,750	68,493,151	4,732,255
End of the financial year	<b>1,123,444,094</b>	<b>95,132,106</b>	660,779,809	38,166,253

## Notes to the Financial Statements

30 JUNE 2012

## 10. RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED	
	2012	2011
	\$	\$
<b>Reserves</b>		
Beginning of the financial year	764,258	1,187,215
Directors and employee options issued	191,179	-
Options expired and exercised	(656,481)	(422,957)
End of the financial year	298,956	764,258
<b>Accumulated losses</b>		
Beginning of the financial year	(23,481,202)	(22,937,128)
Net loss attributable to members of Pancontinental Oil & Gas NL	(1,805,773)	(967,031)
Share options expired and exercised	656,481	422,957
Total available for appropriation	(24,630,494)	(23,481,202)
End of the financial year	(24,630,494)	(23,481,202)

## 11. STATEMENT OF CASH FLOWS

	CONSOLIDATED	
	2012	2011
	\$	\$
<b>(a) Reconciliation of the net loss after tax to the net cash flows from operations</b>		
Net loss	(1,805,773)	(967,031)
<b>Non-Cash Items, Non-Operating Items</b>		
Depreciation of non-current assets	1,651	1,183
Options	191,179	-
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(54,554)	(24,710)
(Increase)/decrease in property, plant & equipment	(1,194)	(1,307)
(Increase)/decrease in exploration, evaluation & development	(13,332,248)	249,909
(Increase)/decrease in interests in subsidiaries	-	-
(Decrease)/increase in trade and other payables	48,065	80,747
(Decrease)/increase in employee entitlements	-	-
Other non-cash	(11,191)	-
Effect of exchange rate changes	-	-
Net cash flow from operating activities	(14,964,065)	(661,209)
<b>(b) Reconciliation of cash</b>		
Cash balance comprises:		
- cash assets	47,722,233	5,710,905
Closing cash balance	47,722,233	5,710,905

## 12. EXPENDITURE COMMITMENTS

	CONSOLIDATED	
	2012	2011
	\$	\$
<b>Capital expenditure commitments</b>		
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:		
not later than one year		
- other	1,432,795	460,653
later than one year and not later than five years		
- other	2,874,288	3,744,326
later than five years		
Total	4,307,083	4,204,979

## Notes to the Financial Statements

30 JUNE 2012

### 13. EMPLOYEE BENEFITS

#### Employee Share Scheme

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

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	13,750,000	0.08	23,250,000	0.09
– expired	(9,250,000)	0.10	(9,500,000)	0.09
– exercised	(2,250,000)	0.59	-	-
– issued	2,250,000	0.13	-	-
Balance at end of year	4,500,000	0.09	13,750,000	0.08

#### 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 2012:

Number of options	Grant date	Expiry date	Weighted average exercise price
2,250,000	29 Nov 07	28 Nov 12	0.0590
2,250,000	29 Nov 11	28 Nov 14	0.1275

### 14. SUBSEQUENT EVENTS

Significant events after balance date include:

#### 12 July 2012 – Kenya L6

In the company's Kenya L6 offshore exploration licence, 3D seismic data was acquired post financial year end. The data acquisition covered a number of prospects, in particular the Kifaru Prospect towards the south of the licence area. Processing and interpretation of the data in the coming months may provide potential prospects for drilling going forward.

#### 19 July 2012 – Namibia EL 0037

The company increased its Namibian acreage by acquiring an additional 10% of co-venturer Paragon Holdings Limited's ("Paragon") interest in the EL 0037 licence. The purchase price of the acquisition was US \$4 million, with US \$2 million payable immediately and the remaining US \$2 million upon the earlier of; 1) Pancontinental farming out an interest in the licence; or 2) six months after the date of the transaction.

#### 31 July 2012 - Fundraising

The company further increased its cash reserves by announcing that the shortfall from the April 2012 Share Purchase Plan was to be placed with sophisticated investors as well as international and domestic institutional clients of brokers Hartleys Limited. 25,300,002 shares were placed at \$0.175, raising \$4,427,500.

#### 13 August 2012 – Kenya L8

Operator Apache Corporation, on behalf of the Kenya L8 joint venture commenced drilling the Mbawa prospect in August 2012. On 10 September 2012, Pancontinental announced that at a depth of 2,553m the Mbawa well encountered approximately 52 net metres of natural gas pay in porous Cretaceous sandstones. The gas discovered by drilling the Mbawa well was the first of its kind offshore Kenya. Total depth of 3,151m was reached on 12 September 2012, however the deeper target did not contain hydrocarbons. Further work continues to assess the potential of the gas encountered at 2,553m.

#### 24 August 2012 - Corporate

The company provided shareholders with a Notice of Meeting for 27 September 2012 where they will be asked to vote on two resolutions with regard to the adoption of a new constitution for the company.

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.

## Notes to the Financial Statements

30 JUNE 2012

## 15. EARNINGS PER SHARE

	CONSOLIDATED	
	2012	2011
	\$	\$
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit	(1,805,773)	(967,031)
<b>Adjustments:</b>		
Earnings used in calculating basic and diluted earnings per share	(1,805,773)	(967,031)
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	795,045,367	605,985,288
<b>Effect of dilutive securities:</b>		
Share options	4,500,000	13,750,000
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	799,545,367	619,735,288

## 16. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2012	2011
	\$	\$
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	40,500	45,500
– other services in relation to the entity and any other entity in the consolidated entity	4,000	4,000
	<b>44,500</b>	<b>49,500</b>

## Notes to the Financial Statements

30 JUNE 2012

### 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
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 Directors/Officers</b>								
Henry David Kennedy								
<b>2012</b>	<b>50,000</b>	-	-	-	-	<b>63,726</b>	-	<b>113,726</b>
2011	50,000	-	-	-	-	-	-	50,000
Roy Barry Rushworth								
<b>2012</b>	<b>550,000</b>	-	-	-	-	<b>127,453</b>	-	<b>677,453</b>
2011	415,833	-	-	-	-	-	-	415,833
Ian Raymond (Inky) Cornelius (Passed away 14 July 2010)								
<b>2012</b>	-	-	-	-	-	-	-	-
2011	2,000	-	-	-	-	-	-	2,000
Anthony Robert Frederick Maslin								
<b>2012</b>	<b>48,000</b>	-	-	-	-	-	-	<b>48,000</b>
2011	25,806	-	-	-	-	-	-	25,806
Ernest Anthony Myers								
<b>2012</b>	<b>48,000</b>	-	-	-	-	-	-	<b>48,000</b>
2011	48,000	-	-	-	-	-	-	48,000
Vesna Petrovic								
<b>2012</b>	-	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-	-
<b>Total Remuneration: Specified Directors /Officers</b>								
<b>2012</b>	<b>696,000</b>	-	-	-	-	<b>191,179</b>	-	<b>887,179</b>
2011	541,639	-	-	-	-	-	-	541,639

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 \$289,500 (2011: \$238,000) 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 2012

## (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	750,000	29 Nov 11	0.08	0.1275	29 May 12	28 Nov 14
Roy Barry Rushworth	1,500,000	29 Nov 11	0.08	0.1275	29 May 12	28 Nov 14
Anthony Robert Frederick Maslin	-	-	-	-	-	-
Ernest Anthony Myers	-	-	-	-	-	-
<b>Total</b>	<b>2,250,000</b>					

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

	Balance at beginning of period 1 July 2011	Granted as Remuneration	Options Exercised/ (Expired)	Net Change Other	Balance at end of period 30 June 2012
<b>Specified Directors</b>					
Henry David Kennedy	1,500,000	750,000	(750,000)	-	1,500,000
Roy Barry Rushworth	3,000,000	1,500,000	(1,500,000)	-	3,000,000
Anthony Robert Frederick Maslin	-	-	-	-	-
Ernest Anthony Myers	1,000,000	-	(1,000,000)	-	-
<b>Total</b>	<b>5,500,000</b>	<b>2,250,000</b>	<b>(4,000,000)</b>	<b>-</b>	<b>4,500,000</b>

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

	Balance 1 July 2011	Acquisitions (Disposals)	Balance 30 June 2012
Ordinary Shares held in Pancontinental Oil & Gas NL			
<b>Specified Directors</b>			
Henry David Kennedy	155,301,968	(22,000,366)	133,301,602
Roy Barry Rushworth	34,764,181	571,429	35,335,610
Anthony Robert Frederick Maslin	-	14,583	14,583
Ernest Anthony Myers	-	285,715	285,715
<b>Total</b>	<b>190,066,149</b>	<b>(21,128,639)</b>	<b>168,937,510</b>

## Notes to the Financial Statements

30 JUNE 2012

### 18. SEGMENT INFORMATION

#### **Segment accounting policies**

The group has adopted AASB 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the group that are reviewed by the chief operating decision-maker in order to allocate resources to the segment and to assess its performance.

The board of Pancontinental reviews internal reports prepared as consolidated financial statements and strategic decisions of the group are determined upon analysis of these internal reports. During the period the group operated predominately in one business segment, being the oil and gas sector. Accordingly, under the management approach outlined only one operating sector has been identified and no further disclosures are required in the notes to the consolidated financial statements.

### 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. In this industry, it arises principally from the receivables of joint venture re-charges and recuperations of cost. For the group, 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.

##### **(ii) Loans to subsidiaries:**

The company has provided funding to its subsidiaries by way of loans. Based on management's review of the subsidiaries net tangible asset position and cash flow projections, the current carrying value of the loans have been assessed to be fully recoverable. Repayment of these loans will occur through future business activities of each respective entity.

## Notes to the Financial Statements

30 JUNE 2012

### 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	
		2012	2011
		\$	\$
Trade and other receivables	4	98,582	44,028
Cash and cash equivalents		47,722,233	5,710,905
<b>Total</b>		<b>47,820,815</b>	<b>5,754,933</b>

#### Impairment losses:

None of the company's or group's receivables are past due at 30 June 2012, (2011: 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 \$27,114 (2011: \$17,542).

Whilst the loans were not payable at 30 June 2012 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 material 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 2012

### 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 2012			30 June 2011		
	AUD	USD	Total	AUD	USD	Total
Cash & cash equivalents	45,675,133	2,047,100	47,722,233	5,710,905	-	5,710,905
Trade and other receivables	98,582	-	98,582	44,028	-	44,028
Trade and other payables	(235,805)	-	(235,805)	(187,740)	-	(187,740)
<b>Net balance sheet exposure</b>	<b>45,537,910</b>	<b>2,047,100</b>	<b>45,537,910</b>	<b>5,567,193</b>	<b>-</b>	<b>5,567,193</b>

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
AUD : USD	1.032	0.989	1.016	1.060

#### 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 2011.

Effect in AUD	Consolidated	
	Equity	Profit or loss
<b>30 June 2012</b>		
10% strengthening	-	-
<b>30 June 2011</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.

The reason that the sensitivity analysis above had no effect on the equity or profit and loss of the company is that the transactions in foreign currencies are predominately guarantees for exploration expenditure and would not have an effect on the financial position of the company until their maturity date and only then, if the guarantee is to be extended and that extension is at a different AUD to USD rate.

#### Interest rate risk:

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

Variable rate instruments	Consolidated Carrying Amount	
	30 June 2012	30 June 2011
Cash and cash equivalents	47,722,233	5,710,905

#### 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 2012

## 19. FINANCIAL INSTRUMENTS (cont'd)

**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 2012		30 June 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	98,582	98,582	44,028	44,028
Cash and cash equivalents	47,722,233	47,722,233	5,710,905	5,710,905
Trade and other payables	(235,805)	(235,805)	(187,740)	(187,740)
	<b>47,585,010</b>	<b>47,585,010</b>	5,567,193	5,567,193

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.

	2012	2011
<b>Equity attributable to shareholders of the Company</b>		
Minorities	-	-
Equity	<b>70,800,568</b>	15,449,309
Total assets	<b>71,036,373</b>	15,637,049
Equity ratio in %	<b>99.67%</b>	98.80%
Average equity	<b>43,124,939</b>	13,566,697
Net Profit	<b>(1,805,773)</b>	(967,031)
Return on Equity in %	<b>(4.19)%</b>	(7.13)%

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 2012

### 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 (2011: \$50,000). Refer note 17.
- (b) 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 \$289,500 (2011: \$238,000). 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.
- (c) 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 2012

	2012	2011
	\$	\$
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
Profit/(Loss) for the period	<u>(1,799,775)</u>	(914,717)
TOTAL COMPREHENSIVE INCOME/(LOSS)	<u>(1,799,775)</u>	(914,717)
	2012	2011
	\$	\$
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>Assets</b>		
Current assets	<u>47,017,877</u>	5,710,905
<b>TOTAL ASSETS</b>	<u><b>70,923,805</b></u>	15,520,246
<b>Liabilities</b>		
Current liabilities	<u>232,041</u>	185,740
<b>TOTAL LIABILITIES</b>	<u><b>232,041</b></u>	185,740
<b>Equity</b>		
Contributed equity	<u>95,132,106</u>	38,166,253
Reserves	<u>298,956</u>	764,258
Accumulated losses	<u>(24,739,298)</u>	(23,596,005)
<b>TOTAL EQUITY</b>	<u><b>70,691,764</b></u>	15,334,506

## 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 2012 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 2012.

On behalf of the Board



Ernest Anthony Myers  
Director

Perth 27 September 2012



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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 2012 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 2012 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 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Graham R Swan  
Partner

Dated 27 September 2012