

**PANCONTINENTAL OIL & GAS NL**

**ANNUAL REPORT 2010**



# CORPORATE INFORMATION

YEAR ENDED 30 JUNE 2010

## **PANCONTINENTAL OIL & GAS NL**

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)

### **Company Secretary**

Mrs Vesna Petrovic

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PCL



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## CHAIRMAN'S REVIEW

YEAR ENDED 30 JUNE 2010



Pancontinental has had a year of success mixed with some frustrations in its exploration efforts. We have made significant progress with several of our projects, and have negotiated a very interesting new exploration licence, but have experienced delays in a few projects in which we had hoped to achieve drilling and other major activities during the year.

The international financial scene has stabilised, although sustained levels of international debt and wavering GDP growth mean that many international economies will travel a rocky road for some years to come. Nevertheless, Australia is continuing its strong resource exports, particularly to China, and this is expected to underpin the Australian economy and investment scene with a reasonable level of stability for at least the next few years.

It is surprising, despite the economic downturn commencing in 2008 and the more recent wavering recovery, that oil prices have remained at about the level of US\$70 to \$80 per barrel. As economic activity worldwide eventually resumes normal growth, we expect to see a rise (possibly a strong rise) in oil prices due to the lead time "gap" between discovery and development of any new resource. We have noted increased exploration activity, particularly around Africa, and this has given considerable encouragement for our existing African projects and for seeking new projects in appropriate areas.

Offshore Kenya, in area L8, our co-venturer Origin carried out a 3D seismic survey over the giant Mbawa Prospect. I am very pleased to report that the initial processed seismic data support the earlier interpretation that Mbawa is of world-class size. The prospect remains very robust and the "flat spots", suggesting the presence of hydrocarbons as seen previously on seismic, also occur on the new 3D data. Despite the success, data processing has taken considerably longer than planned, and drilling of Mbawa has now been pushed firmly into 2011. Pancontinental was "free carried" by Origin under farmout for the \$10 Million 3D program, and the Company now has a 25% working interest in this project.

Also in Kenya, in area L6, we were frustrated by failure to obtain approvals for an onshore seismic survey. The joint venture has now shifted focus to the offshore sector, where new studies suggest that prospects have a higher probability of holding economic quantities of oil and gas. Pancontinental has 40% in this licence.

To highlight the potential of the East African margin, recent oil and gas discoveries offshore Mozambique, south of Kenya and with similar geology to Kenya, have ensured that East Africa as a whole, including Kenya, is receiving a much heightened level of attention from international oil companies. We would not be surprised to see a number of new discoveries in this region in the near future. Accordingly, Pancontinental made a number of applications for new exploration licences in East Africa during the year.

In West Africa, in Namibia, I am very pleased to report that our lengthy efforts have resulted in agreement by the Namibian authorities to grant Pancontinental an exploration licence over an extensive offshore area. We are currently finalising the documentation for this new project. Further details will be reported when we hold completed contracts.

Pancontinental's project offshore Malta remains suspended. We had meetings with the Maltese authorities during the year and will continue to make efforts to recommence exploration. The border controversy between Malta and Libya over the southern margin of the area remains unresolved, although we understand that progress is being made.

Grant of Pancontinental's Mediterranean Application offshore Morocco also continues to be delayed due to a border dispute between Morocco and Spain.

In Australia, we are very pleased to be part of a joint venture which was awarded licence L15 over the West Kora oil field, onshore in the Canning Basin of Western Australia. We plan to refurbish the existing production facilities on the well and the tank facility and attempt to re-establish oil production. Although this field historically produced only about 20,000 barrels of oil, the initial production rate of 350 barrels per day was very encouraging, and we will attempt to revive the modest but healthy financial returns from West Kora.

Elsewhere in the Canning Basin, the joint venturers made further plans to retest the Stokes Bay 1 well in EP104/R1. Previous well testing did not yield

## CHAIRMAN'S REVIEW

YEAR ENDED 30 JUNE 2010

a recovery of formation fluids (whether oil, gas or water), although pressure results were consistent with a possible oil or gas column in the well, and we are planning another test in October 2010. We hope, finally, to report definitive results from the optimal "coiled tubing" testing operation. Pancontinental's 10% in any confirmed discovery here would be of significant benefit to the Company.

In EP 424, offshore in the Carnarvon Basin, we have again experienced delays in negotiating an agreement to explore the portion of the major Baniyas Prospect not already held by our joint venture. This has caused further delay in drilling. We now appear to be approaching consummation of the extension agreement, and plan to drill in 2011. Baniyas remains a very interesting prospect, with potential for some 30 million barrels of oil near shore and in proximity to substantial infrastructure, and I am very pleased to report that Pancontinental increased its equity in the project to 38% during the year.

To summarise, we have made excellent progress on most projects, but have had some delays to drilling and other activities we had planned for the year 2009 / 2010. We continue to seek worthwhile new projects in key areas, and we anticipate a high level of activity in the forthcoming year.

Pancontinental remains financially healthy, due to prudent management of funds and resources. It remains our aim to farmout to relieve the financial burden whilst still seeking to maintain meaningful equity in all projects. Good progress is being made towards farmout for drilling of Pancontinental's more advanced projects.

The Company suffered the unfortunate loss of long serving director and supporter Ian (Inky) Cornelius, who passed away in July 2010 after a long illness. Ian had been a director of Pancontinental since 1992 and played a valuable role in the Company's development and growth over a long period. His market sense and knowledge of the exploration industry will be sadly missed.

Our small management team has made an outstanding effort during the year and I thank them heartily for their efforts. As always I thank you, the Company's shareholders, for your continuing support.



**H. D. (David) Kennedy**



# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010



## Highlights

- **Kenya Block L8**  
3D seismic survey data were acquired over the giant Mbawa Prospect in late 2009 and data processing, interpretation and mapping commenced. The “Flat Spots” seen in Mbawa have been verified and sea floor “pock marks” have been located, consistent with interpreted natural sea surface oil slicks. The joint venture is seeking a farminee for drilling in 2011.
- **Australia Carnarvon Basin EP424**  
The Joint Venture continued to negotiate an extension of the Baniyas Prospect into neighbouring acreage. The joint venture plans to farmout for drilling in 2011. Pancontinental increased its interest from 25% to 38.462%.
- **Australia Canning Basin EP 104**  
Planning proceeded for renewed testing of Stokes Bay-1 in October- November 2010.
- **Australia Canning Basin L15**  
A new Production Licence was awarded to Pancontinental and Co-venturers over the West Kora oil field. The joint venture is planning to renew oil production from refurbished well and production facilities.
- **Namibia Walvis Basin**  
Pancontinental successfully negotiated a Petroleum Agreement and Exploration Licence over an area of approximately 15,000 sq km offshore northern Namibia.

## AUSTRALIA

### EP 104 & RL1, onshore Canning Basin, Western Australia

#### Pancontinental 10%

Pancontinental holds a 10% interest in both licence EP 104 and an extension application over Retention Licence R1 in the Canning Basin in north-western Western Australia. The Canning Basin has a number of recognised petroleum systems, yet it remains relatively under-explored.

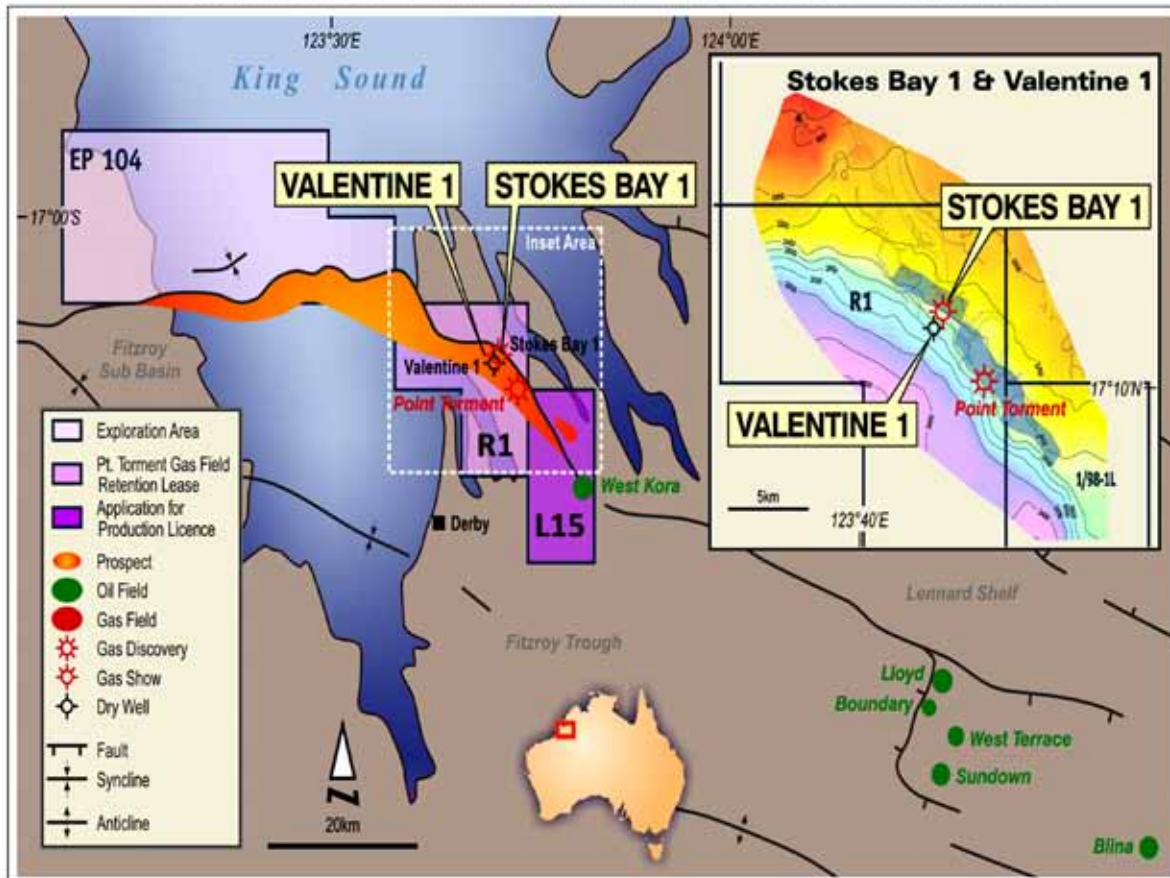
The RL1 area has been excised from the EP 104 exploration area to allow retention of the Point Torment gas discovery and the Stokes Bay 1 area. Granting of the licence is considered to be imminent.

The EP 104 and RL1 areas are on-trend to the Blina and other nearby oil fields and have similar exploration plays, exploration targets and petroleum systems. The West Kora oil discovery is 18 kilometres southeast and the nearest gas discovery, Point Torment-1, is 4.5 kilometres southeast of the Company's current focus at Stokes Bay-1.

Stokes Bay-1 was drilled in 2007 to test any updip continuation of the Point Torment gas discovery. Stokes Bay 1 lost circulation of drilling mud into cavernous and vugular porosity in the top 40 to

*The EP 104 joint venture now plans new testing of Stokes Bay -1 using a coiled tubing and nitrogen-lift system in October / November 2010*

EP 104 / R1 & L15 LOCATION MAP- STOKES BAY PROSPECT SEISMIC CROSS SECTION



45 metres of the Nullara Limestone. The Nullara contains oil in the Blina field and also tested gas and a small amount of oil in Point Torment-1.

During operations to control the lost circulation Stokes Bay-1 flowed back mud intermittently. High mud gas peaks of up to 10% and pressure data suggested a possible gas or oil column and the high mud losses indicated significant reservoir permeability and porosity.

In September / October 2008 further testing attempted to lift sufficient lost drilling mud to induce the flow of formation fluid (oil, gas or water) from the Nullara. Some gas was seen at the wellhead but again no definitive formation fluid was recovered.

Analysis shows a Nullara reservoir pressure up to 140 psi above the regional water gradient. This could indicate a hydrocarbon column, although other interpretations are possible. The anomalous pressure is from a zone over 80m higher than the zone which flowed 0.134 Mmcf/d gas with some minor oil shows in Point Torment 1, 4.5 Km to the southeast.

Closure of the cavernous trend around Stokes Bay 1 is currently mapped at some 7 sq km, but this could

extend over a much larger area. The extent of any hydrocarbon accumulation can only be determined by further work, including further testing. If the Stokes Bay feature proves to contain gas in economic quantities, it could provide a regional commercial gas supply.

During 2009 / 2010 further planning was undertaken for additional well testing. The EP 104 joint venture now plans re-testing of Stokes Bay-1 using a coiled tubing and nitrogen-lift system in October / November 2010.

## L15, onshore Canning Basin, Western Australia

### Pancontinental 12%

Pancontinental and several co-venturers were granted Production Licence L15 over the West Kora-1 oil discovery well in the onshore Canning Basin of Western Australia in April 2010. West Kora-1 was drilled in 1984 to a depth of 2606 metres and produced some 20,000 Barrels of oil with an initial rate of 350 BOPD.

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

*The L 15 participants will commence planning for a West Kora - 1 workover programme in the coming months. With improvements in technology and significantly higher oil prices, revived production from West Kora-1 could be feasible now that the Production Licence has been secured*

The L15 licence awarded by the Department of Mines and Petroleum of Western Australia runs for 21 years from 1 April 2010.

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

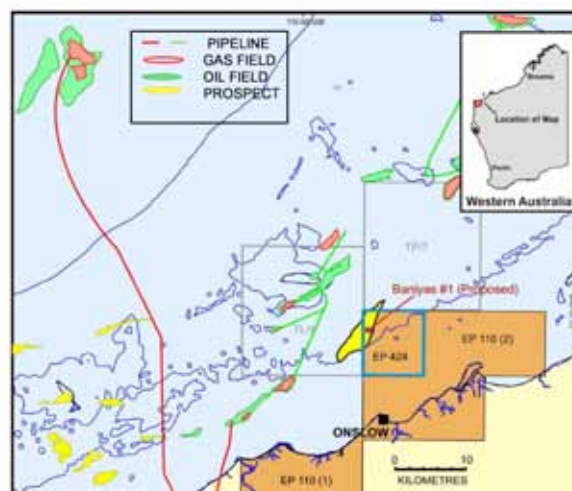
While drilling West Kora-1 the Carboniferous aged Anderson Formation demonstrated a number of oil shows. Following initial testing, an extended production test over the interval 1735-1751 metres from 15 October 1982 to 22 December 1990 produced some 20,000 barrels of oil. The initial production rate was 350 BOPD with 30% water cut, declining to 15% oil cut / 85% water cut. Production was then terminated.

In June 1992, the interval 1693 to 1696 (the "1700 metre oil sand") was also perforated. A through-tubing bridge plug failed to isolate water production in the well, considered to be likely from the lower perforated intervals.

Additional Extended Production Tests were conducted in 1992 and 1997 / 1998. The results demonstrated the need for a workover to isolate water production and reinstate oil production and to determine the oil productivity and reserves.

West Kora-1 remains as a completed oil well which is planned to be placed back on production to the existing West Kora Tank Farm production facility following a successful workover and upgrade of the Tank Farm. The aim of the joint venture is to re-establish cash flow from oil production from West Kora-1 and to exploit any further oil potential in the surrounding area.

The L 15 participants will commence planning for a West Kora -1 workover programme in the coming months. With improvements in technology and significantly higher oil prices, revived production



from West Kora-1 could be feasible now that the Production Licence has been secured.

## EP 424 and 110, offshore / onshore Carnarvon Basin, Western Australia

### Pancontinental 38.462%

The Carnarvon Basin has yielded numerous oil and gas discoveries over many years, commencing with the discovery of the Barrow Island oil field in 1964.

The EP 110 and EP 424 exploration areas lie in the Flinders Fault Zone trend of the Barrow Sub- Basin near the Roller, Saladin and Skate oil fields and the onshore Tubridgi gas field.

The Baniyas Prospect and the smaller Jade lead have been mapped from 2D seismic data. The geological targets are major local hydrocarbon reservoirs with excellent characteristics. Drilling on Baniyas is planned in 2011.

The Baniyas prospect is on-trend to the Roller, Saladin and Skate oil fields. The crest of the Baniyas feature has anomalous seismic amplitudes, consistent with the presence of gas-over-oil or gas-over-water, although it is possible that other factors may be responsible for the anomaly.

The Baniyas Prospect has substantial potential in the range of 8 to 44 million barrels of oil and potential for gas in the range of 9 to 111 billion cubic feet.

*Pancontinental increased its interests in EP- 424 and EP- 110 from 25% to 38.462%. The joint venture intends to farmout Baniyas for drilling in 2011*

Potential at the “P mean” level is 34 million barrels recoverable oil equivalent. These potential reserves are speculative until the prospect has been drilled. Proximity to nearby infrastructure would allow rapid development and production of a commercial Baniyas discovery.

The project operator has sought to extend the joint venture’s interest in the Baniyas Prospect over neighbouring acreage and Pancontinental awaits finalisation of this matter. The negotiations for the extension agreement have delayed the joint venture’s plans for an exploration well.

Following the withdrawal of one of the other joint venture participants, Pancontinental increased its interests in EP- 424 and EP- 110 from 25% to 38.462%. The joint venture intends to farmout Baniyas for drilling in 2011.

## EP 406, offshore Southern Carnarvon Basin, Western Australia

### Pancontinental 5%

Pancontinental has an agreement with Victoria Petroleum NL (“Victoria”) that provides for Victoria to earn a 95% interest in the permit by drilling one well.

The licence is subject to a Marine Park and World Heritage listing and activities are currently suspended. Exploration will commence after renewal of the permit and receipt of the necessary EPA Government approvals.

## INTERNATIONAL

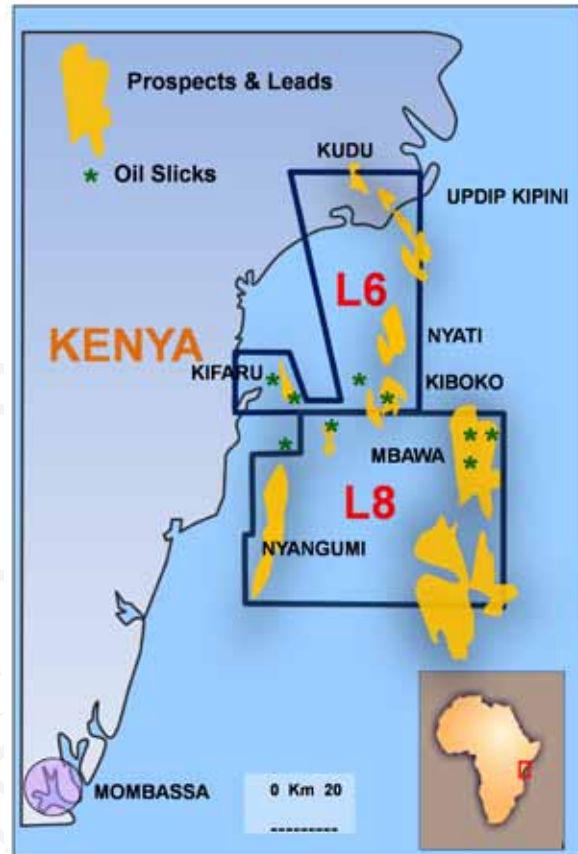
### KENYA

Following oil and gas discoveries offshore Mozambique, East Africa is becoming a focus of international exploration activity. Kenya’s stable legislative and fiscal frameworks and Pancontinental’s established acreage position places the company very favourably in the region.

## Block L6, offshore/onshore Lamu Basin, Kenya

### Pancontinental 40%

The L6 licence area covers approximately 3,100 sq km. Approximately one quarter of the area lies onshore and the rest extends offshore to 400 metres water depth.



L6 lies in the Lamu Basin, with a deep sedimentary section extending from the Tertiary to at least the Jurassic. A deep central graben in the area is considered to be an oil and gas “source kitchen” and potential hydrocarbon trapping prospects have been identified immediately adjacent to this area.

Offshore, sea-surface oil or condensate slicks are interpreted to originate from the sea floor in the south of L6, supporting the interpretation of a working hydrocarbon system in this under-explored region. Kenya has a burdensome energy shortage and any significant hydrocarbons found onshore, including gas, could be readily commercialised.

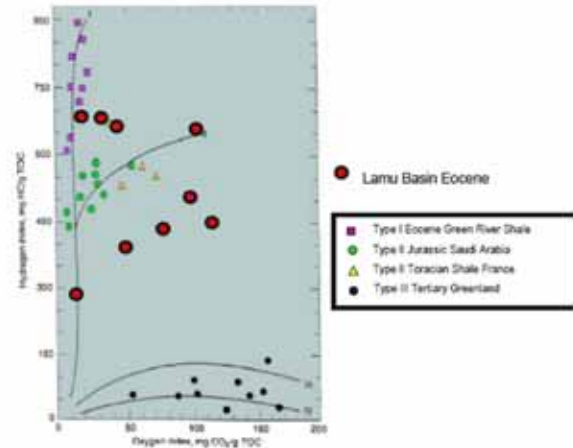
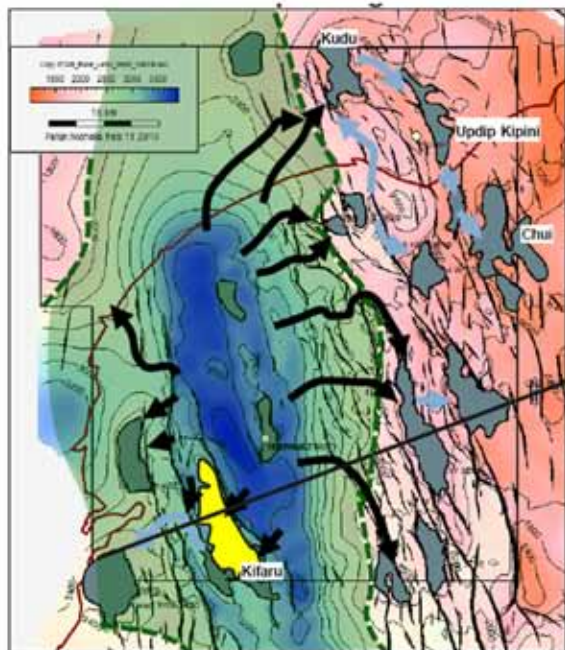
The attention of the joint venture has shifted from the gas / condensate potential onshore to the larger oil and gas potential offshore. Significant new studies in L6, including those interpreting hydrocarbon migration paths, have highlighted the potential of areas adjacent to the central graben.

*Considerable international attention is now focused on the oil potential offshore East Africa, including Kenya*

# REVIEW OF OPERATIONS

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## KENYA L6- KIFARU PROSPECT SOURCE QUALITY AND OIL / GAS MIGRATION



Source rock analyses indicate the presence of excellent quality, oil-prone source rocks within the Early Eocene of the Lamu Basin.

These source rocks are interpreted to be mature and actively expelling within the oil window at the present day.

Several major prospects in L6 have potential in excess of 100 million barrels recoverable oil or 0.5 trillion cubic feet of gas. Eight prospects have been mapped in five clusters; these prospects are now the main focuses of exploration work -

- The Kifaru Prospects in the southwest of the block in water depths of 60 metres (Kifaru N) and 100 metres (Kifaru S).
- The Kiboko and Nyati clusters are large and well situated in water depths from 100 metres to 350 metres;
- The Chui Prospects are large features in near-shore water depths up to 120 metres; and
- The Kudu Prospect, being onshore, is located where a smaller gas or oil discovery could be readily commercialised.

*Significant new studies in L6 offshore Kenya, including those interpreting hydrocarbon migration paths, have highlighted the potential of areas adjacent to the central graben*

With the recognition of the potential offshore, the joint venture is seeking a farminee with the aim of acquiring 3D seismic data over the Kifaru Prospect in 2011 and drilling in 2011 / 2012.

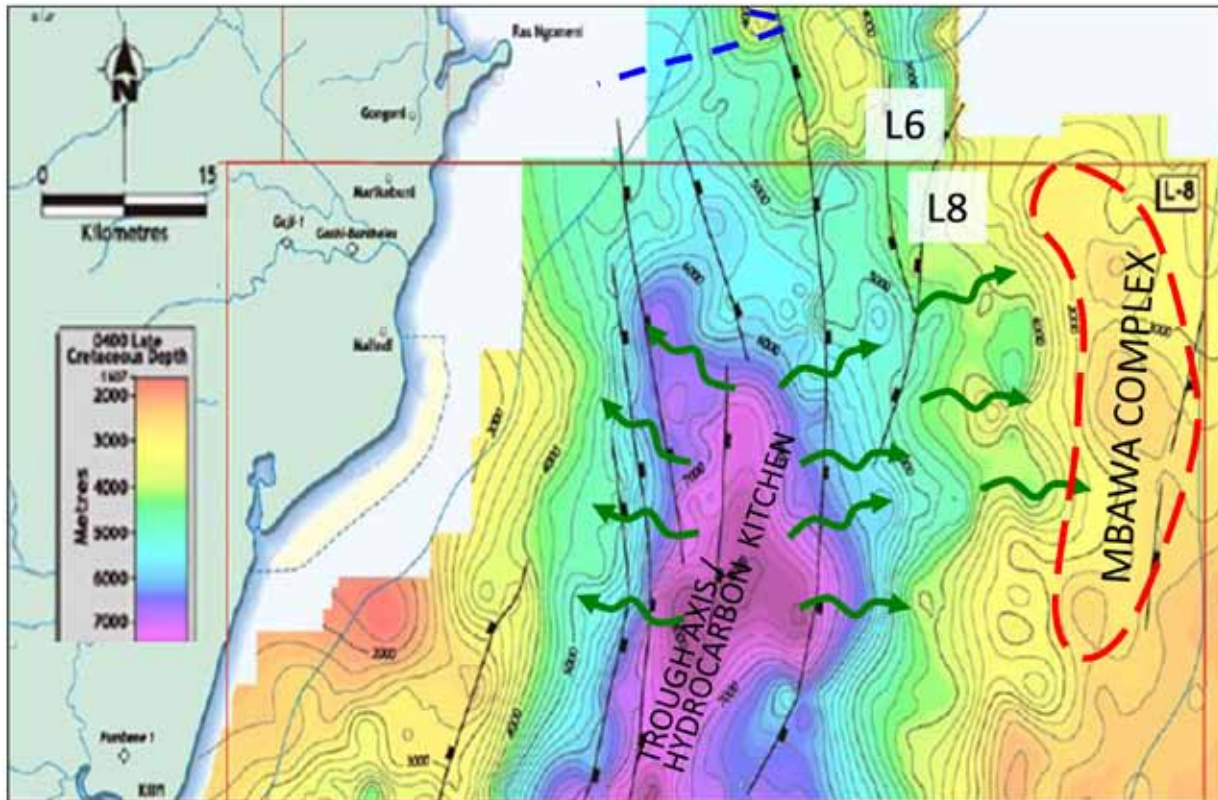
## Block L8, offshore Lamu Basin, Kenya

### Pancontinental 25%

The L8 licence area is adjacent and geologically continuous to L6. 3D seismic data were acquired over the Mbawa prospect late 2009 and processing and interpretation are continuing in 2010. Pancontinental's initial interpretation of the high quality Mbawa 3D seismic survey processed data shows features similar to the previously interpreted Mbawa "Flat Spots" and the Mbawa structure remains robust and very large.

The first ever oil discovery offshore East Africa, in Mozambique, was announced by Anadarko Petroleum Corporation and Cove Energy plc in 2010. The geological circumstances are similar to L8 offshore Kenya. Considerable international attention is now focused on the oil potential offshore East Africa, including Kenya. For example, Anadarko has

## KENYA L8- MBAWA "KITCHEN" AND OIL / GAS MIGRATION CONCEPTS



recently been awarded a huge licence area further offshore from Pancontinental's L6 and L8 licences.

L8 covers 5,114.9 sq km offshore Kenya in the Lamu Basin in water depths from 100m to 1,300 m.

Through a 2005 farmin Origin Energy earned a 50% interest in L8 by funding a 3,759 kilometre 2D seismic survey. In 2009 / 2010 Origin increased its interest to 75% by funding an approximate US\$10 million 3D seismic survey over the giant Mbawa Prospect. Pancontinental retains a 25% interest following the 3D survey.

The new 3D survey provided approximately 300 sq km of seismic data over Mbawa. PSTM (Pre Stack Time Migration) processed data was received mid 2010 and new 3D mapping and the location of a drilling site are expected to be finalised October / November 2010. Water depth over Mbawa is about 800 metres, easily within the range of modern drilling

and production equipment. The 3D processing took longer than anticipated due to its complexity. Amplitude-versus-offset (AVO) analysis and special PSTM seismic processing are ongoing.

The new 3D mapping is revising the size and shape of the Mbawa structure and the oil and gas volumetric potential. A previous volumetric model gives Mbawa the potential for a P10 recoverable volume of 3.6 billion barrels of oil at the Tertiary / Cretaceous level. A second model gives potential for up to 1.5 billion barrels of oil plus a gas cap of 400 billion cubic feet and a third model indicates P10 potential for 11

*The L8 joint venture participants are talking to a number of large international companies considering farm-in for drilling Mbawa in 2011*



KENYA L8-MBAWA 3D SEISMIC SURVEY-FUGRO GEO BARENTS (8 STREAMER 3D VESSEL)

# REVIEW OF OPERATIONS

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trillion cubic feet of recoverable gas. New volumetric estimates are expected to be revised up or down to some extent.

As well as the Tertiary / Cretaceous closure of 180 sq km mapped using existing 2D seismic data, there is very high additional potential in a deeper Jurassic closure of 300 sq km.

Pancontinental's initial interpretation of the 3D data shows similar features to the previously interpreted Mbawa "Flat Spots". The main upper Mbawa Flat Spot (possible "Direct Hydrocarbon Indicator", "DHI") indicates a possible gas-oil or gas-water interface. About 120m deeper, a second Flat Spot is consistent with a possible oil-over-water interface.

Pancontinental's interpretation is consistent with a gas column of about 100m overlying an oil column of about 120m but these can only be validated by further seismic analysis and drilling. True DHI's are only seen at this depth when the reservoir rocks (in this case sandstones) are thick and highly porous, suggesting a highly productive reservoir system if oil or gas is present.

Light oil or condensate "slicks" on the sea surface above Mbawa are interpreted to originate from minor natural sea - floor leakage, suggesting the presence of an active petroleum generating system. From the new 3D data the slicks appear to coincide with deep faults and sea floor "pock marks" (interpreted small expulsion craters), suggesting minor natural oil and / or gas leakage along the fault planes. Similar natural leakage is seen in major oil and gas provinces elsewhere around the globe. As well as Mbawa, other prospects in L8 also have high volumetric potential and are also associated with interpreted slicks.

After Mbawa, the next largest prospect is Nanaa Central with approximately 40% of Mbawa's volumetric potential. Nanaa Central would provide an additional commercial opportunity after a Mbawa discovery.

The interpreted oil slicks on the sea surface support the concept of oil generation, expulsion and migration from the kitchen area and Mbawa itself. There is an interpreted extensive deep oil and gas generating "kitchen" near the Mbawa Prospect, extending to the north into area L6.

The high quality 3D results show greater structural complexity and also open up new "play" types and new structures for trapping oil and gas. The geological structure of the main Mbawa Prospect at the Tertiary / Cretaceous level is divided by faults into several large "compartments"; these will be fully mapped.

As well as the main Tertiary- Cretaceous prospect, there are opportunities in large Upper Jurassic /

Lower Cretaceous fault blocks, in the Cretaceous and the Tertiary sequences themselves and in a newly identified Upper Jurassic play. Conceptually, several play types could be tested by one well to about 4,000m depth.

The Kenyan Ministry of Energy agreed to grant an extension of three months to the current licence year to allow the joint venture to finalise the 3D interpretation.

The L8 joint venture participants are talking to a number of large international companies to farm-in for drilling Mbawa in 2011.

## NAMIBIA

### Offshore Walvis Basin

#### Pancontinental 85%

Geologically, offshore Namibia is an extension of the West African continental margin that hosts prolific oil producing regions such as Nigeria and Angola and is also the tectonic conjugate of some of the major oil areas offshore Brazil. Offshore Namibia lies on the West African continental margin adjacent to some of the largest oil discoveries of recent times in Angola.

Exploration activity offshore Namibia has increased significantly in recent years, with the entry of a number of large international exploration and production companies. There is potential for very large oil and gas reserves and the margin is significantly under-explored. The very large Kudu Gas Field offshore southern Namibia is under development by majors Tullow and Gazprom.

In February 2007 Pancontinental was awarded an offshore Reconnaissance Licence (RL1-2007) over 30,000 square kilometres in water depths from 300 to 3,000 metres.

Following detailed technical studies the company notified the Namibian authorities that it wished to negotiate a full Petroleum Agreement for selected blocks over part of the RL area.

*Geologically, offshore Namibia is an extension of the West African margin that hosts prolific oil producing regions such as Nigeria and Angola and is also the tectonic conjugate of some of the major oil areas offshore Brazil.*

During 2009 / 2010 Pancontinental and the Ministry of Mines and Energy of Namibia negotiated and agreed to the terms of a full Petroleum Agreement (“PA”) and Exploration licence over a large area.

Pancontinental will explore the extensive ponded basin floor turbidites and slope fans and channels indentified under the company’s earlier Reconnaissance Licence. These targets are within and adjacent to a restricted graben trough interpreted to hold rich and mature oil source rocks identified in regional wells. The potential reservoir rocks lie very close to the oil source rocks.

The PA documentation is now being finalised. Pancontinental will hold the PA with Namibian participant Paragon Investment Holdings (Pty) Ltd (“Paragon”) (15%). Paragon is a leading Namibian private equity and business management company. Its management brands include numerous specialty companies in investments, real-estate, retail and media advertising.

Signing of the licence and joint venture documents is imminent.

## MALTA

### Area 5 and Block 3 within Area 4, offshore Mediterranean Sea

#### Pancontinental 80%

Area 5 and Block 3 within Area 4 offshore Malta are held by Pancontinental (80%) and Sun Resources NL (20%). The combined project area is approximately 14,800 sq km in water depths from 100 to 400 metres. The main prospects are in the 200 to 300 metre range. Activities on the ESA areas have been suspended since September 2005 under force majeure provisions due to border issues between Malta, Libya and Tunisia.

A number of very large Cretaceous and Tertiary carbonate ‘reef’ leads and prospects have been identified, similar to those hosting large producing oil and gas fields in neighbouring Tunisian and Libyan waters.

In early 2009 operatorship reverted to Pancontinental Oil & Gas NL as Anadarko International Energy Company, who farmed in three years previously, withdrew from the permit due to the lack of progress on the border issue. Since resuming operatorship, Pancontinental has been engaged in communication with the Oil Exploration Department of the Ministry of Resources and Rural Affairs of Malta (“OED”) to refresh the licence title and allow exploration of the

area to recommence at some time in the future when the border issues have been resolved.

In late May 2009, without any prior warning, Pancontinental received a letter from the OED claiming that the ESA expired in August 2008. Pancontinental has written to the OED disputing the expiry of the ESA and seeking clarification of the reasons for the OED’s claim and reserving its rights and potential remedies. The OED responded in July 2009 by stating that a July 2008 request via then Operator Anadarko for the grant of a 2 year extension to the term of the ESAs was not acceded to.

Pancontinental has sought legal advice from a firm of Maltese lawyers and had meetings during the year with the Maltese authorities. The Company intends to proceed with maintaining its rights under the agreements and resuming exploration over the licence area.

## MOROCCO

### Mediterranean Est Block, offshore Mediterranean Sea

#### Pancontinental 100%- Application

Pancontinental is awaiting the formal issue of an exclusive Reconnaissance License (RL) for a large 6,339 square kilometre tract off the Mediterranean coast of Morocco.

There is currently a territorial waters dispute between the Moroccan Government and Spain regarding the Spanish enclave of Melilla on the Moroccan coast which is delaying the issue of the permit.

## NEW VENTURES

Pancontinental continuously reviews new opportunities in Australia and internationally. During the year a number of new opportunities were assessed.

Pancontinental awaits the outcome of several new applications made for areas offshore East Africa during the year.

Pancontinental sought to farm in to ATP 587P in the Cooper-Eromanga Basin, but subsequently withdrew following the results of mapping that indicated to the Company that the increased risk profile was not commensurate with the size of the play being pursued.

# DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2010

Your directors submit their report for the year ended 30 June 2010.

## 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, 74, 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 was formerly a director Sub-Sahara Resources NL from July 1996 to November 2007. 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, 58, 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** (Non-Executive Director)  
(Passed away 14 July 2010)

Mr Cornelius, 69, 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 Ernest Anthony Myers CPA**  
(Executive Finance Director, Company Secretary to 16 April 2010)

Mr Myers, 62, has held senior roles in exploration companies over the past thirty years and has been involved in capital raisings, project evaluation, financing and feasibility studies. Mr Myers has been an alternate director of East Africa Resources Limited since 23 June 2010.

## COMPANY SECRETARY



**Mrs Vesna Petrovic, BComm, CPA**  
(Appointed 16 April 2010)

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.

# DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2010

The relevant interest of each director in the shares and options of the company as at 30 June 2010 is as follows:

## Directors' Interests

	Ordinary Shares	Options over Ordinary Shares
Mr Henry David Kennedy	155,301,968	2,250,000
Mr Roy Barry Rushworth	34,764,181	4,500,000
Mr Ian Raymond (Inky) Cornelius (passed away 14 July 2010)	-	2,250,000
Mr Ernest Anthony Myers	-	2,000,000

## EARNINGS PER SHARE

	Cents
Basic earnings (loss) per share	(0.32)
Diluted earnings (loss) per share	(0.32)

## 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 2010, (2009: no employees). The consolidated entity employs the services of specialised consultants where needed.

# DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2010

## OPERATING AND FINANCIAL REVIEW

### Review of Operations

Offshore Kenya, the L8 Joint Venture (Pancontinental 25%) carried out an approximate US\$ 10 million 3D seismic survey over the giant Mbawa Prospect. Interpretation and mapping is ongoing. Drilling is planned under farmout for 2011.

In Kenya licence area L6 (Pancontinental 40%), further studies were carried out in advance of an offshore 3D seismic survey.

Offshore Carnarvon Basin (WA) the EP 424 / EP 110 joint venture continued efforts to acquire additional acreage over an extension of the Banyas Prospect. Pancontinental increased its interest to 38.462 %. Farmout and drilling of Banyas is proposed for 2011.

In the EP104 area in the Canning Basin (onshore WA, Pancontinental 10%) further planning proceeded for retesting Stokes Bay 1 in October 2010.

Elsewhere in the Canning Basin a joint venture including Pancontinental (12 %) was awarded Production Licence L15 over the West Kora oil field. Planning commenced for rehabilitating the existing production facilities.

Talks took place in Malta with the aim of Pancontinental recommencing offshore exploration activities.

In Namibia, Pancontinental negotiated an Exploration Licence and Petroleum Agreement over a large northern offshore area. Finalisation of contracts is currently under way prior to signing.

Pancontinental lodged a number of applications for new exploration licences offshore East Africa.

### 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

# DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2010

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.

## Operating Results for the Year

Summarised operating results are as follows:

	Revenues \$	2010 Results \$
Non-segment and unallocated revenues	41,852	(1,786,654)
Consolidated entity sales and profit from ordinary activities before income tax expense	41,852	(1,786,654)

## Shareholder Returns

The group is in the exploration phase and so returns to shareholders can only be measured through capital growth.

	2010	2009	2008	2007	2006	2005
Basic earning per share (cents)	(0.32)	(1.26)	(0.36)	(0.6)	(0.5)	(0.9)

## 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.

# DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2010

## 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 14 July 2010, the Company announced the sad passing away of director Ian Raymond (Inky) Cornelius. Mr Cornelius was a director of Pancontinental since 1992 and played a valuable role in the Company's development and growth. Mr Cornelius' knowledge of the exploration industry helped Pancontinental to build and develop its significant oil and gas exploration portfolio.

The company announced on 27 August 2010 that a decision had been made not to proceed with a previously announced farm-in to the interest of Tangiers Petroleum Limited in permit ATP 587P and the drilling of the Irriculla 2 exploration well in the Queensland sector of the Cooper-Eromanga Basin. The decision was the result of remapping which increased the risk profile of Irriculla and a secondary prospect to a level not commensurate with the size of the play.

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.

## 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 23,250,000 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 EA Myers and Mrs V Petrovic.

## 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 2010 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.

# DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2010

## 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.

Table 1: Director remuneration for the year ended 30 June 2010

	Primary benefits Salary & Fees	Cash STI	Post Employment Superannuation	Equity Options (Issued)	Total	Value of options as proportion of Revenue
Mr Henry David Kennedy (Non-Executive Chairman)						
<b>2010</b>	<b>50,003</b>	-	-	-	<b>50,003</b>	-
2009	49,992	-	-	-	49,992	-
Mr Roy Barry Rushworth (Executive Director, Chief Executive Officer)						
<b>2010</b>	<b>344,500</b>	-	-	-	<b>344,500</b>	-
2009	351,635	-	-	-	351,635	-
Mr Peter Lawson Munachen (Finance Director) (resigned 5 January 2009)						
<b>2010</b>	-	-	-	-	-	-
2009	52,500	-	-	-	52,500	-
Mr Ian Raymond (Inky) Cornelius (Non-Executive Director) (Passed away 14 July 2010)						
<b>2010</b>	<b>46,500</b>	-	-	-	<b>46,500</b>	-
2009	45,000	-	-	-	45,000	-
Mr Ernest Anthony Myers (Executive Finance Director)						
<b>2010</b>	<b>48,000</b>	-	-	-	<b>48,000</b>	-
2009	14,000	-	720	-	14,720	-
<b>Total Remuneration</b>	<b>489,003</b>	-	-	-	<b>489,003</b>	-

# DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2010

Table 2: Options granted as part of remuneration for the year ended 30 June 2010 (in accordance with the Employee Incentive Scheme)

	Issued
Mr Henry David Kennedy	-
Mr Roy Barry Rushworth	-
Mr Ian Raymond (Inky) Cornelius	-
Mr Ernest Anthony Myers	-
Total Options Issued	-

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.

## Fair values of options:

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

	2010	2009	2008	2007	2006	2005
Expected volatility	-	-	113%	112%	77.9%	76.0%
Risk-free interest rate	-	-	6.42%	5.75%	5.32%	5.1%
Expected life of option	-	-	5 years	5 years	5 years	5 years

Number of options	Grant date	Vesting date	Weighted average fair value
9,500,000	29 Nov 05	28 May 06	0.05
9,250,000	29 Nov 06	28 May 07	0.06
4,500,000	29 Nov 07	28 May 08	0.05

## 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>	<b>3</b>
<b>Number of meetings attended:</b>	
Mr Henry David Kennedy	3
Mr Roy Barry Rushworth	3
Mr Ian Raymond (Inky) Cornelius	3
Mr Ernest Anthony Myers	3

## 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 10 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

YEAR ENDED 30 JUNE 2010

## AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

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:

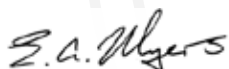
1. no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2010 annual financial statements; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

Mr Graham Swan  
Lead Auditor  
30 September 2010

### NON-AUDIT SERVICES

Rothsay did not receive any amounts for the provision of non-audit services during the year:

Signed in accordance with a resolution of the Directors.



Ernest Anthony Myers  
Director

Perth 30 September 2010

# CORPORATE GOVERNANCE STATEMENT

YEAR ENDED 30 JUNE 2010

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 2009/2010 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 of the four directors was considered to be independent during the year ended 30 June 2010 – Non-Executive Director Mr Cornelius.

#### 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. Due to the sad passing of Mr Cornelius in July 2010, the board will need to consider a new appointment.

### 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.

### 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.

<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

YEAR ENDED 30 JUNE 2010

## 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

### 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.

## 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.

The full board, in its capacity as the Audit Committee, held two meetings during the reporting period. All directors appointed at the time of the meeting attended the meeting.

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.

# CORPORATE GOVERNANCE STATEMENT

YEAR ENDED 30 JUNE 2010

## 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 2010 was Mr Cornelius.

### 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.

Name	Term in office
Mr Henry David Kennedy	11 years
Mr Roy Barry Rushworth	5 years
Mr Ian Raymond Cornelius	18 years
Mr Ernest Anthony Myers	1 year

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

# STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010 \$	2009 \$
<b>Revenue from operating activities</b>			
Interest received		33,070	9,335
Other		8,782	275,169
<b>Total revenues from operating activities</b>		<b>41,852</b>	284,504
Depreciation and amortisation expenses	2, 6	(1,633)	(3,561)
Salaries, fees and benefits		(380,939)	(470,943)
Audit fees		(35,500)	(32,000)
Generative exploration expenditure and write off	2	(65,542)	(5,009,401)
Annual report costs		(16,945)	(20,731)
ASX fees		(23,857)	(19,052)
Administration, accounting and secretarial fees		(218,441)	(262,482)
Insurance		(22,420)	(19,803)
Legal fees		(13,493)	(32,243)
Share registry costs		(17,400)	(17,439)
Rent and outgoings		(103,417)	(94,137)
Travel		(45,968)	(59,313)
Other revenues and expenses		(49,537)	12,864
Provision for loss on investments		(833,414)	-
<b>Profit/(Loss) before Income Tax Expense</b>		<b>(1,786,654)</b>	(5,743,737)
Income Tax Expense	3	-	-
<b>Profit/(Loss) for the Period</b>		<b>(1,786,654)</b>	(5,743,737)
		-	-
<b>Other Comprehensive Income/(Loss)</b>			
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>(1,786,654)</b>	(5,743,737)
Basic earnings per share (cents per share)	15	<b>(0.32)</b>	(1.26)
Diluted earnings per share (cents per share)		<b>(0.32)</b>	(1.26)

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 2010

	Notes	CONSOLIDATED	
		2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash assets		1,639,859	720,804
Trade and other receivables	4	19,318	287,708
<b>TOTAL CURRENT ASSETS</b>		<b>1,659,177</b>	1,008,512
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	2,280	3,913
Deferred exploration, evaluation and development costs	7	10,129,621	9,765,421
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,131,901</b>	9,769,334
<b>TOTAL ASSETS</b>		<b>11,791,078</b>	10,777,846
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	106,993	379,464
<b>TOTAL CURRENT LIABILITIES</b>		<b>106,993</b>	379,464
<b>TOTAL LIABILITIES</b>		<b>106,993</b>	379,464
<b>NET ASSETS</b>		<b>11,684,085</b>	10,398,382
<b>EQUITY</b>			
Parent entity interest			
Contributed equity	9a	33,433,998	30,361,641
Reserves	10	1,187,215	1,256,527
Accumulated losses	10	(22,937,128)	(21,219,786)
Total parent entity interest in equity		11,684,085	10,398,382
<b>TOTAL EQUITY</b>		<b>11,684,085</b>	10,398,382

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 2010

Consolidated	Share Capital	Retained Earnings	Option Reserve	Total Equity
	\$	\$	\$	\$
<b>Balance at 1 July 2009</b>	<b>30,361,641</b>	<b>(21,219,786)</b>	<b>1,256,527</b>	<b>10,398,382</b>
<b>Profit or loss</b>	-	<b>(1,786,654)</b>	-	<b>(1,786,654)</b>
<b>Other comprehensive income/(loss)</b>	-	-	-	-
<b>Shares issued (net of costs)</b>	<b>2,238,943</b>	-	-	<b>2,238,943</b>
<b>Shares on acquisition</b>	<b>833,414</b>	-	-	<b>833,414</b>
<b>Share options</b>	-	<b>69,312</b>	<b>(69,312)</b>	-
<b>Balance at 30 June 2010</b>	<b>33,433,998</b>	<b>(22,937,128)</b>	<b>1,187,215</b>	<b>11,684,085</b>
Balance at 1 July 2008	29,556,746	(15,559,374)	1,281,103	15,278,475
Profit or loss	-	(5,743,737)	-	(5,743,737)
Other comprehensive income/(loss)	-	-	-	-
Shares issued (net of costs)	804,895	-	-	804,895
Share options	-	83,325	(24,576)	58,749
Balance at 30 June 2009	30,361,641	(21,219,786)	1,256,527	10,398,382

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 2010

	Notes	CONSOLIDATED	
		2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(1,043,732)	(828,857)
Interest received		38,805	9,335
Sundry income		283,995	-
Expenditure on exploration interests		(597,838)	(576,665)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	11(a)	(1,318,770)	(1,396,187)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	6	-	(3,573)
Advances to controlled entities		-	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		-	(3,573)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		2,446,575	813,000
Share issue costs		(208,831)	(8,105)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		2,237,744	804,895
NET INCREASE/(DECREASE) IN CASH HELD		918,974	(594,865)
Add opening cash brought forward		720,804	1,247,879
Effects of exchange rate changes		81	67,790
<b>CLOSING CASH CARRIED FORWARD</b>	11(b)	<b>1,639,859</b>	<b>720,804</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

YEAR ENDED 30 JUNE 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report was authorised for issue by the directors on 30 September 2010.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

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.

## **(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:

	2010	2009
Plant and equipment:	13% - 27%	13% - 27%

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## **(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.

## **(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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## *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

YEAR ENDED 30 JUNE 2010

## (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. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the group follows;

- AASB 9: Financial Instruments and AASB 2009-11; Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 138, 139, 1023 & 1038 and Interpretations 10 & 121] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The group has not yet determined the potential impact on the financial statements.

The 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; and
- reclassifying financial assets where there is a change in an entity's business model as they are

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

initially classified based on;

- the objective of the entity's business model for managing the financial assets; and
  - the characteristics of the contractual cash flows.
- 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 group.

- AASB 2009-5; Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the group.

- AASB 2009-8; Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two interpretations are superseded by the amendments. These amendments are not expected to impact the group.

- AASB 2009-9: Amendments to Australian Accounting Standards - Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the group.

- AASB 2009-10: Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the group.

- 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 International Financial Reporting Standards 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. These amendments are not expected to impact the group.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

- AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the group.

- 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 will not impact the group.

- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the group.

The group does not anticipate the early adoption of any of the above Australian Accounting Standards.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## 2. DEPRECIATION AND WRITE OFF

Notes	CONSOLIDATED	
	2010	2009
	\$	\$
<b>Expenses</b>		
Depreciation of non-current assets:		
Office furniture and equipment	1,633	3,561
Generative exploration and write off:		
Exploration, evaluation and development costs	65,542	5,009,401

## 3. INCOME TAX

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>(a) Income Tax (Benefit)/Expense</b>		
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	(535,996)	(1,723,121)
<i>Tax effect of permanent differences:</i>		
Other items (net)	55,879	1,013,806
Amount not brought to account as a carried forward future income tax benefit	480,117	709,315
Income tax expense attributable to ordinary activities	-	-
<b>(b) Future Income Tax Benefit not taken into account</b>		
The potential future income tax benefit calculated at 30% in respect of :		
Adjustments to carry forward tax losses	-	-
Tax Losses not brought to account	4,929,565	4,533,135
Total	4,929,565	4,533,135

This future income tax benefit will only be obtained if:

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

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## 4. RECEIVABLES (CURRENT)

	CONSOLIDATED	
	2010	2009
	\$	\$
Sundry receivables	19,318	287,708
Total	19,318	287,708

(a) *Terms and conditions*

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

(ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

## 5. INTERESTS IN SUBSIDIARIES

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2010 %	2009 %	2010 \$	2009 \$
<b>Starstrike Resources Ltd *</b>	British Virgin Islands	100	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>44,764</b>	37,402
Provision for loss on loan to Starstrike Resources Ltd				<b>(44,764)</b>	-
<b>Euro Pacific Energy Pty Ltd</b>	Australia	100	100	<b>2</b>	2
Provision for diminution in value of investment				<b>(2)</b>	(2)
Loan to Euro Pacific Energy Pty Ltd				<b>(165,881)</b>	71,629
Provision for loss on loan to Euro Pacific Energy Pty Ltd				-	(54,240)
<b>Afrex Ltd *</b>	Saint Lucia	100	100	<b>10,584,106</b>	9,750,693
Provision for diminution in value of investment				<b>(4,461,793)</b>	(3,593,369)
Loan to Afrex Ltd				<b>592,702</b>	230,846
Provision for loss on loan to Afrex Ltd				-	-
Total				<b>6,549,134</b>	6,442,961

\*Indicates companies not audited by Rothsay Chartered Accountants.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## 6. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2010	2009
	\$	\$
Office equipment		
At cost	<b>49,429</b>	49,429
Less: Accumulated depreciation	<b>(47,149)</b>	(45,516)
Total written down amount	<b>2,280</b>	3,913
<b>Reconciliations</b>		
Reconciliations of the carrying amounts of property, plant and equipment		
Office equipment		
Carrying amount opening balance	<b>3,913</b>	3,901
Additions	-	3,573
Depreciation expense	<b>(1,633)</b>	(3,561)
Total written down amount	<b>2,280</b>	3,913

## 7. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

	CONSOLIDATED	
	2010	2009
	\$	\$
Exploration, evaluation and development costs carried forward		
Pre-production:		
exploration and evaluation phases:		
Carrying amount at 1 July	<b>9,765,421</b>	14,102,254
Expenditure during the year	<b>388,648</b>	672,568
Expenditure during the year not capitalised	-	(24,652)
Generative exploration expenditure and write off	<b>(24,448)</b>	(4,984,749)
Carrying amount at 30 June	<b>10,129,621</b>	9,765,421

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. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## 8. TRADE and OTHER PAYABLES (CURRENT)

	CONSOLIDATED	
	2010	2009
	\$	\$
Trade creditors	106,993	379,464
Total	106,993	379,464

## 9. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>(a) Issued and paid up capital</b>		
Ordinary shares fully paid	33,433,998	30,361,641
Total	33,433,998	30,361,641

### (b) Movements in shares on issue

	2010		2009	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	510,050,826	30,361,641	444,770,113	29,556,746
Issued during the year:				
- public equity raising (net costs)	82,235,832	2,238,943	65,280,713	804,895
- shares on acquisition	-	833,414		
End of the financial year	592,286,658	33,433,998	510,050,826	30,361,641

## 10. RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>Reserves</b>		
Beginning of the financial year	1,256,527	1,281,103
Directors and employee options issued	-	58,749
Options expired	(69,312)	(83,325)
End of the financial year	1,187,215	1,256,527

### Accumulated losses

Beginning of the financial year	(21,219,786)	(15,559,374)
Net loss attributable to members of Pancontinental Oil & Gas NL	(1,786,654)	(5,743,737)
Adjustments	69,312	83,325
Total available for appropriation	(22,937,128)	(21,219,786)
End of the financial year	(22,937,128)	(21,219,786)

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## 11. STATEMENT OF CASH FLOWS

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>(a) Reconciliation of the net loss after tax to the net cash flows from operations</b>		
Net loss	(1,786,654)	(5,743,737)
<b>Non-Cash Items, Non-Operating Items</b>		
Depreciation of non-current assets	1,633	3,561
Options	-	58,749
Provision for diminution in value of loans to controlled entities	-	-
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	268,389	(249,268)
(Increase) in exploration, evaluation & development costs	(364,200)	4,336,833
(Increase) in interests in subsidiaries	-	-
(Decrease)/increase in trade and other payables	(272,471)	265,465
(Decrease)/increase in employee entitlements	-	-
Other non-cash	833,604	-
Effect of exchange rate changes	929	(67,790)
Net cash flow from operating activities	(1,318,770)	(1,396,187)
<b>(b) Reconciliation of cash</b>		
Cash balance comprises:		
- cash assets	1,639,859	720,804
Closing cash balance	1,639,859	720,804

## 12. EXPENDITURE COMMITMENTS

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>Capital expenditure commitments</b>		
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:		
not later than one year		
- other	430,653	337,500
later than one year and not later than five years		
- other	1,992,628	670,000
later than five years		
Total	2,423,281	1,007,500

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## 13. EMPLOYEE BENEFITS

Employee Share Scheme

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

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	27,225,000	0.10	30,850,000	0.10
- granted	-	-	-	-
- expired	(3,975,000)	0.15	(3,625,000)	0.10
Balance at end of year	23,250,000	0.09	27,225,000	0.10

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 2010:

Number of options	Grant date	Expiry date	Weighted average exercise price
9,500,000	29 Nov 05	28 Nov 10	0.0925
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 14 July 2010, the Company announced the sad passing away of director Ian Raymond (Inky) Cornelius. Mr Cornelius was a director of Pancontinental since 1992 and played a valuable role in the Company's development and growth. Mr Cornelius' knowledge of the exploration industry helped Pancontinental to build and develop its significant oil and gas exploration portfolio.

The Company announced on 27 August 2010 that a decision had been made not to proceed with a previously announced farm-in to the interest of Tangiers Petroleum Limited in permit ATP 587P and the drilling of the Irriculla 2 exploration well in the Queensland sector of the Cooper-Eromanga Basin. The decision was the result of remapping which increased the risk profile of Irriculla and a secondary prospect to a level not commensurate with the size of the play.

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

YEAR ENDED 30 JUNE 2010

## 15. EARNINGS PER SHARE

	2010 \$	CONSOLIDATED 2009 \$
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit	(1,786,654)	(5,743,737)
<b>Adjustments:</b>		
Earnings used in calculating basic and diluted earnings per share	(1,786,654)	(5,743,737)
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	556,906,878	455,172,445
Effect of dilutive securities:		
Share options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	556,906,878	455,172,445

## 16. AUDITORS' REMUNERATION

	2010 \$	CONSOLIDATED 2009 \$
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	35,500	32,000
other services in relation to the entity and any other entity in the consolidated entity	-	-
	<b>35,500</b>	<b>32,000</b>

## 17. DIRECTOR AND EXECUTIVE DISCLOSURES

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

#### (i) Specified Directors

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

#### (ii) Specified Executives

Mrs Vesna Petrovic	Company Secretary
--------------------	-------------------

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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## (b) Remuneration of Specified Directors /Officers

	Salary & Fees	Primary Cash Bonus	Non Monetary benefits	Post Employment Super -annuation	Retirement benefits	Equity Options	Other Bonuses	Total
<b>Specified Directors/Officers</b>								
Mr Henry David Kennedy								
<b>2010</b>	<b>50,003</b>	-	-	-	-	-	-	<b>50,003</b>
2009	49,992	-	-	-	-	-	-	49,992
Mr Roy Barry Rushworth								
<b>2010</b>	<b>344,500</b>	-	-	-	-	-	-	<b>344,500</b>
2009	351,635	-	-	-	-	-	-	351,635
Mr Peter Lawson Munachen (Resigned 5 January 2009)								
<b>2010</b>	-	-	-	-	-	-	-	-
2009	52,500	-	-	-	-	-	-	52,500
Mr Ian Raymond (Inky) Cornelius (Passed away 14 July 2010)								
<b>2010</b>	<b>46,500</b>	-	-	-	-	-	-	<b>46,500</b>
2009	45,000	-	-	-	-	-	-	45,000
Mr Anthony Ernest Myers								
<b>2010</b>	<b>48,000</b>	-	-	-	-	-	-	<b>48,000</b>
2009	14,000	-	-	720	-	-	-	14,720
Mrs Vesna Petrovic								
<b>2010</b>	-	-	-	-	-	-	-	-
2009	-	-	-	-	-	-	-	-
Total Remuneration: Specified Directors /Officers								
<b>2010</b>	<b>489,003</b>	-	-	-	-	-	-	<b>489,003</b>
2009	513,127	-	-	720	-	-	-	513,847

Mr Myers and Mrs Petrovic received no direct remuneration from the company for their services as company secretary but during the year the company paid fees to Resource Services International (Aust) Pty Limited totalling \$216,000 (2009: \$261,000) for the provision of corporate, accounting and administration services. Mr Myers and Mrs Petrovic are employed by Resource Services International (Aust) Pty Limited. See Note 20 for further information.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

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

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

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

	Balance at beginning of period 1 July 2009	Granted as Remuneration	Options Exercised/ (Expired)	Net Change Other	Balance at end of period 30 June 2010
<b>Specified Directors</b>					
Henry David Kennedy	2,750,000	-	(500,000)	-	2,250,000
Roy Barry Rushworth	4,500,000	-	-	-	4,500,000
Ian Raymond (Inky) Cornelius (passed away 14 July 2010)	2,750,000	-	(500,000)	-	2,250,000
Ernest Anthony Myers	2,500,000	-	(500,000)	-	2,000,000
<b>Total</b>	<b>12,500,000</b>	-	<b>(1,500,000)</b>	-	<b>11,000,000</b>

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

Ordinary Shares held in Pancontinental Oil & Gas NL	Balance 1 July 2009	Acquisitions (Disposals)	Balance 30 June 2010
<b>Specified Directors</b>			
Henry David Kennedy	138,517,882	16,784,086	155,301,968
Roy Barry Rushworth	34,764,181	-	34,764,181
Ian Raymond (Inky) Cornelius	-	-	-
Ernest Anthony Myers	-	-	-
<b>Total</b>	<b>173,282,063</b>	<b>16,784,086</b>	<b>190,066,149</b>

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

## 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

YEAR ENDED 30 JUNE 2010

## 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	2010 \$	Carrying amount	2009 \$
Trade and other receivables	4	19,318		287,708
Cash and cash equivalents		1,639,859		720,804
Total		1,659,177		1,008,512

## Impairment losses:

None of the company's or group's receivables are past due at 30 June 2010, (2009: 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 \$858,947 (2009: \$3,601,134).

Whilst the loans were not payable at 30 June 2010 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

YEAR ENDED 30 JUNE 2010

## Exposure to currency risk:

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

	30 June 2010			30 June 2009			
	AUD	AUD	USD	Total	AUD	USD	Total
Trade and other receivables	<b>19,318</b>	-	-	<b>19,318</b>	287,708	-	287,708
Trade and other payables	<b>(106,993)</b>	-	-	<b>(106,993)</b>	(379,464)	-	(379,464)
<b>Net balance sheet exposure</b>	<b>(87,675)</b>	-	-	<b>(87,675)</b>	(91,756)	-	(91,756)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
AUD : USD	<b>0.882</b>	0.731	<b>0.856</b>	0.805

## 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 2009.

Effect in AUD	Consolidated	
	Equity	Profit or loss
<b>30 June 2010</b>		
10% strengthening	-	-
<b>30 June 2009</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 2010	30 June 2009
<b>Variable rate instruments</b>		
Cash and cash equivalents	<b>1,639,859</b>	720,804

## 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

YEAR ENDED 30 JUNE 2010

## 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 2009.

Consolidated	Profit or loss		Equity	
	100 bp increase	100bp decrease	100 bp increase	100 bp decrease
<b>30 June 2010</b>				
Cash and cash equivalents	2	(2)	2	(2)
<b>30 June 2009</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 2010		30 June 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	19,318	19,318	287,708	287,708
Cash and cash equivalents	1,639,859	1,639,859	720,804	720,804
Trade and other payables	(106,993)	(106,993)	(379,464)	(379,464)
	<b>1,552,184</b>	<b>1,552,184</b>	629,048	629,048

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.

	2010	2009
<b>Equity attributable to shareholders of the Company</b>		
Minorities	-	-
Equity	11,684,085	10,398,382
Total assets	11,791,078	10,777,846
Equity ratio in %	99.09%	96.48%
Average equity	11,041,234	12,838,428
Net Profit	(1,786,654)	(5,743,737)
Return on Equity in %	(16.18)%	(44.7)%

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

YEAR ENDED 30 JUNE 2010

## 20. RELATED PARTY

- (a) During the year the company paid fees to Rockfield Investments Ltd and Resource Services International Limited, companies in which Mr Kennedy has a financial interest, for consulting services. The amount paid to was \$50,003 (2009: \$49,992). 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 \$46,500 (2009: \$45,000). Refer note 17.
- (c) During the year the company paid fees to Resource Services International (Aust) Pty Limited, a company of which Messrs Munachen and Myers are directors, to cover the provision of corporate, accounting and administration services. The amount paid to Resource Services International (Aust) Pty Limited was \$216,000 (2009: \$261,000). 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

AT 30 JUNE 2010

	2010 \$	2009 \$
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>Assets</b>		
Current assets	1,628,116	977,451
<b>TOTAL ASSETS</b>	<b>11,623,962</b>	10,592,892
<b>Liabilities</b>		
Current liabilities	106,993	379,464
<b>TOTAL LIABILITIES</b>	<b>106,993</b>	379,464
<b>Equity</b>		
Contributed equity	33,433,998	30,361,641
Reserves	1,187,215	1,256,527
Accumulated losses	(23,104,245)	(21,404,740)
<b>TOTAL EQUITY</b>	<b>11,516,969</b>	10,213,428

## 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:

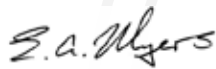
(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

(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 2010.

On behalf of the Board



Ernest Anthony Myers

Director

Perth 30 September 2010

# INDEPENDENT AUDIT REPORT



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

## 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<sup>1</sup>) which comprises the balance sheet as at 30 June 2010 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 2010 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 2010. 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 2010 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Rothsay'.

Rothsay

A handwritten signature in black ink that reads 'GR Swan'.

Graham R Swan  
Partner

Dated 30 September 2010

## ADDITIONAL ASX INFORMATION

YEAR ENDED 30 JUNE 2010

Additional information required by the ASX Ltd and not shown elsewhere in this report is as follows. The information is current as at 30 September 2010.

### (a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

		Ordinary shares	
		Number of holders	Number of shares
1	- 1,000	324	84,265
1,001	- 5,000	136	419,790
5,001	- 10,000	181	1,553,683
10,001	- 100,000	907	39,706,644
100,001	and over	643	550,522,276
		<b>2,191</b>	<b>592,286,658</b>
The number of shareholders holding less than a marketable parcel of shares are:		745	3,339,926

### (b) Twenty largest shareholders

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Sundowner International Limited	132,171,113	22.32
2	Merrill Lynch (Australia) Nominees Pty Ltd <Berndale A/C>	27,644,100	4.67
3	CM Skye Trustees Limited	25,706,511	4.34
4	Citicorp Nominees Pty Limited	17,766,097	3.00
5	National Nominees Limited	12,547,832	2.12
6	JP Morgan Nominees Australia Limited <Cash Income A/C>	12,207,053	2.06
7	Mrs Helen Joy Alexander	9,600,000	1.62
8	Calm Holdings Pty Ltd <Tide A/C>	8,000,000	1.35
9	Mr Robert Albert Boas	7,525,000	1.27
10	Mr Bradley William Green	6,500,000	1.10
11	Mr Roy Barry Rushworth	6,402,748	1.08
12	M & M Family Pty Ltd	5,500,000	0.93
13	Mr William John Tyler & Mrs Sybil Tyler	5,400,000	0.91
14	CIMB-GK Securities Pte Ltd <Client A/C>	5,100,000	0.86
15	Mr Ralf Andreas Finke	5,000,000	0.84
16	Alvar Distributors Pty Ltd <Vardy Super Fund A/C>	4,271,428	0.72
17	Cramm Nominees Pty Limited	3,671,614	0.62
18	Mr Ian Alexander Easson	3,285,714	0.55
19	Mr Roy Barry Rushworth	2,654,922	0.45
20	Howard-Smith Investments Pty Ltd	2,551,821	0.43
		<b>303,505,953</b>	<b>51.24</b>

## ADDITIONAL ASX INFORMATION

YEAR ENDED 30 JUNE 2010

### (c) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

### (d) Substantial Shareholders

The details of substantial shareholders as disclosed in substantial shareholder notices received by the Company are set out below:

	Number of Shares
Sundowner International Limited, Alwyn Resources Limited, Henry David Kennedy and Graeme McKinnon Menzies	155,301,968
Roy Barry Rushworth and CM Skye Trustees Limited as trustee for the Mulberry Trust	34,764,181

### (e) Permit Schedule

Permits and Licence Interests Petroleum prospects	Permit reference	Interest
Western Australia	EP 104 (R1)	10 %
	EP 406	5%
	EP 110	38.462%
	EP 424	38.462%
	L15	12%
Kenya	L6	40%
	L8	50% reducing to 25%
Namibia	RL 1/2007*	85%
Malta	Area 5***	80%
	Block 3 of Area 4***	80%
Morocco	Mediterranee Est. Block**	100% - diluting to 80%

\* Awaiting award of PA and EL.

\*\*In suspension

\*\*\* Force Majeure



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