

Pancontinental Oil & Gas NL

ABN 95 003 029 543

Annual Financial Report

for the year ended 30 June 2005

Corporate Information

ABN 95 003 029 543

Directors

Mr Henry David Kennedy (Chairman)
Mr Andrejs (Andrew) Karlis Svalbe (Chief Executive Officer)
Mr Peter Lawson Munachen (Finance Director)
Mr Ian Raymond (Inky) Cornelius (Non-executive Director)
Mr Roy Barry Rushworth (Director - New Ventures)
Mr Lindsay Arthur Colless (Alternate Director)

Company Secretary

Mr Ernest Anthony Myers

Registered Office

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Share Register

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Auditors

Rothsay

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ASX Code

PCL

Contents

Directors' Report	3
Corporate Governance Statement	12
Statement of Financial Performance	15
Statement of Financial Position	16
Statement of Cash Flows	17
Notes to the Financial Statements	18
Directors' Declaration	32
Independent Audit Report	33
ASX Additional Information	35

Directors' Report

30 June 2005

Your directors submit their report for the year ended 30 June 2005.

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), Member CIMMP, SEG, PESA, AIG (Chairman)

Mr Kennedy, 69, 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 and South Pepper, North Herald and Chervil oil fields in Western Australia and the Kupe South and Rua oil/gas condensate fields in New Zealand. As Chairman and Chief Executive of Kiwi International Resources NL and Associated Gold Fields NL, Mr Kennedy was involved in the discovery and development of the Obotan gold project in Ghana prior to the Company being merged with Resolute Samantha Ltd in May/June 1996. Formerly a director of Dragon Mining NI from 1996 to 2005. He is also a director of a listed overseas company and the following Australian listed companies: Norwest Energy NL (since 1994), Alkane Exploration Ltd (since 2000) and Sub-Sahara Resources NL (since 1996).

Mr Andrejs (Andrew) Karlis Svalbe BSc (Chief Executive Officer)

Mr Svalbe, 62, holds a B.Sc (Hons) degree in economic geology from the University of Adelaide and has 30 years experience in the petroleum exploration and production industries both in the domestic and international sectors. After an initial 12 years with Exxon affiliated companies working within Australia and overseas he returned to Australia as exploration manager and subsequently Chief Executive Officer of Pancontinental Petroleum. During this period Pancontinental was the Operator and Joint Venturer of oil and gas discoveries in the Cooper-Eromanga, Amadeus, Surat and offshore Carnarvon Basins. More recently Mr Svalbe was Chief Geoscientist - Petroleum for the Geological Survey of WA. He is also a director of Norwest Energy NL (since 2004). Mr Svalbe is a member of the Petroleum Exploration Society of Australia (PESA), American Association of Petroleum Geologists (AAPG), Australian Society of Exploration Geophysicists (ASEG) and the Formation Evaluation Society of Western Australia (FESWA).

Mr Peter Lawson Munachen, FCA, FAICD (Finance Director)

Mr Munachen, 59, is a Chartered Accountant and former partner in an international accounting practice. He has had considerable experience in the resources industry and is a director of Norwest Energy NL (since 2003), Sub-Sahara Resources NL (since 2004), Currie Rose Resources Inc (since 2005), Dragon Mining NL (an alternate director since 2003 and a director since 2005), Newland Resources Limited (since 2001) and an alternate director on the board of New World Alloys Limited (since 2003).

Mr Ian Raymond (Inky) Cornelius (Non-executive Director)

Mr Cornelius, 64, worked for many years in 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 has had many years experience in the resources industry and has had much success in the exploitation of many mineral deposits. Mr Cornelius is a non-executive director of the Company and is Chairman of Alkane Exploration Ltd (since 1986), a public listed mineral exploration and mining Company. He is also a director of New World Alloys Ltd (since 2003).

Mr Roy Barry Rushworth, BSc (Director - New Ventures)

Mr Rushworth, 53, 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 drilling and seismic operations, his career then extended to a position as Chief Geologist and subsequently Exploration Manager for an Australian-listed company which had a number of oil and gas discoveries during his time with that company.

More recently he has been seeking and negotiating international new ventures for Afrex Limited and its then co-venturer Pancontinental Oil & Gas NL in the position of General Manager and Director of Afrex Limited.

In this position, he identified and negotiated the Malta, Kenya and Morocco offshore projects for Afrex and Pancontinental.

Following the merger of Afrex with Pancontinental in August 2005, he accepted the position of Director, New Ventures with Pancontinental and is the person with primary responsibility for identifying and acquiring international new ventures for the company'.

Mr Lindsay Arthur Colless, CA, FAICD (Alternate Director)

Mr Colless, 60 is a Chartered Accountant with many years experience in the mineral and petroleum exploration industries and is alternate for Messrs Cornelius and Munachen.

Directors' Report continued

30 June 2005

COMPANY SECRETARY

Mr Ernest Anthony Myers, CPA

Mr Myers has been company secretary of Pancontinental Oil & Gas NL since March 2004. Prior to holding this position he was company secretary of Dragon Mining NL for six years.

	Ordinary Shares	Options over Ordinary Shares
Mr Henry David Kennedy	121,031,204	1,700,000
Mr Andrejs (Andrew) Karlis Svalbe	300,000	3,975,000
Mr Peter Lawson Munachen	62,500	2,450,000
Mr Ian Raymond (Inky) Cornelius	-	1,700,000
Mr Roy Barry Rushworth	28,080,687	-
Mr Lindsay Arthur Colless	1,332	200,000
EARNINGS PER SHARE		Cents
Basic earnings (loss) per share		(0.9)
Diluted earnings (loss) per share		(0.8)

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 employed two employees as at 30 June 2005 (2004: one employee).

OPERATING AND FINANCIAL REVIEW

Group Overview

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

Performance Indicators

Management and the Board monitor the group's overall performance, from its implementation of the strategic plan through to the performance of the company against operating plans and financial budgets.

Dynamics of the Business

The Board have adopted an aggressive new ventures program to acquire new assets in high value areas. In addition, the Company will continue with its Australian acreage utilising the skills and experience of the existing operators.

Directors' Report continued

30 June 2005

Operating Results for the Year

Summarised operating results are as follows:

	2005	
	Revenues	Results
	\$	\$
Non-segment and unallocated revenues	161,197	(1,488,936)
Consolidated entity sales and profit from ordinary activities before income tax expense	161,197	(1,488,936)

Shareholder Returns

The group is in the exploration phase and so returns to shareholders can only be measured through capital growth. The Company has shown significant growth in its share price over a five year period.

	2005	2004	2003	2002	2001
Basic earning per share (cents)	(0.9)	(0.5)	(0.01)	(0.01)	(0.03)

Investments for Future Performance

The group will continue to build its exploration portfolio from an international contact base and utilising in-house commercial expertise.

Review of Financial Condition

Capital Structure

The group has a sound capital structure which has been enhanced during the year by raising \$2.9 million. Options were issued to directors and executives pursuant to an employee incentive scheme.

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 cash resources of \$2.9 million at 30 June 2005 which is sufficient for the group to finance its current operations.

Risk Management

The group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also 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. Instead sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole, and the sub-committee further examines the issue and reports back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- The completion of a stakeholder needs analysis (SNA) which is a powerful tool in ensuring that the Board is cognisant of the diverse needs of various stakeholders and assists in identifying the risks the business may face if those needs are not met. The SNA is a dynamic document. In addition to the ongoing discussion of this document in Board meetings, to specifically review and update the SNA.
- Board approval of a strategic plan, which encompasses the group's vision, mission and strategy statements, designed to meet stakeholders needs and manage business risk.

Directors' Report continued

30 JUNE 2005

- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of key performance indicators (KPI's) of both a financial and non-financial nature.

Statement of Compliance

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 5 August 2005, shareholders approved the acquisition by the company of Afrex Limited by the issue of 122,650,229 ordinary fully paid shares at a deemed issue price of \$0.0795 per share.

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 any significant 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 15,350,000 unissued ordinary shares under options. Refer to note 15 for further details on the options outstanding.

Shares issued as a result of the exercise of options

15,937 ordinary fully paid shares were issued during the year from the exercise of options at \$0.20 each.

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 AK Svalbe, Mr PL Munachen, Mr IR Cornelius and MR LA Colless.

REMUNERATION REPORT

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

Remuneration philosophy

The small number of Board members and key executives has meant that there is no clear distinction between executive and non-executive remuneration. However, 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, Andrew Svalbe, receives a fixed fee for his services as determined in accordance with external remuneration surveys. He does not receive any bonus or other performance-based remuneration. Mr Svalbe received 1,125,000 options issued pursuant to a shareholder approved employee option scheme. The Executive Director - Finance and Corporate receives a fixed fee for his executive services (with no bonus or other performance-based remuneration), and a separate fixed fee for his services as a director. Executive directors do not receive any termination or retirement benefits.

Directors' Report continued

30 JUNE 2005

Remuneration committee

The full Board carries out the role of the remuneration committee. The full Board met once formally as the remuneration committee during the Reporting Period, and discussed remuneration-related matters at other times during the year.

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 2004 when shareholders approved an aggregate remuneration of \$200,000 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. Each director receives a fee for being a director of the company. No additional fee is paid for each board committee on which a director sits. Non-executive directors have long been encouraged by the board to hold shares in the company. It is considered good governance for directors to have a stake in the company whose board he or she sits. The non-executive directors of the company can participate in the Employee Option Incentive Plan. The remuneration of non-executive directors for the period ending 30 June 2005 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 took independent advice from an external consultant.

Fixed Remuneration

Objective

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

Structure

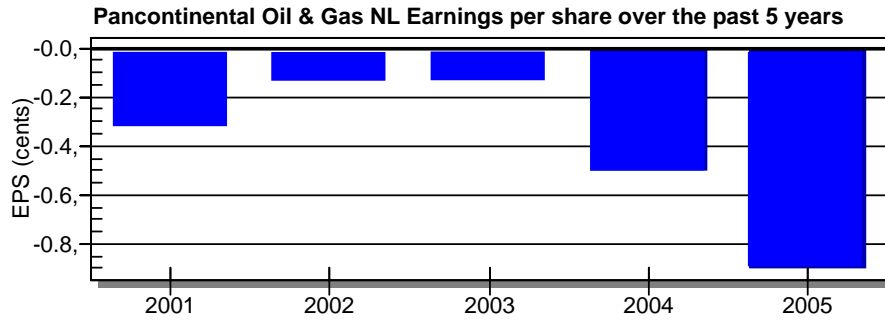
Fixed primary remuneration is paid on a cash basis and there are no fringe benefits or other costs incurred by the company.

Directors' Report continued

30 JUNE 2005

Company performance

Company performance is also reflected in the movement in the company's earnings per share (EPS) over time. The graph below shows Pancontinental Oil & Gas NL's basic EPS history for the past five years (including the current period).



Directors' Report continued

30 JUNE 2005

Table 1: Director remuneration for the year ended 30 June 2005

	Primary benefits		Post	Equity	Total	Value of options as proportion of Revenue
	Salary & Fees	Cash STI	Employment Superannuation	Options		
Mr Henry David Kennedy						
2005	35,000	-	-	29,381	64,381	46%
2004	20,000	-	-	12,019	32,019	38%
Mr Andrejs (Andrew) Karlis Svalbe						
2005	167,789	-	43,136	66,108	277,033	24%
2004	157,627	-	39,840	27,042	224,509	12%
Mr Peter Lawson Munachen						
2005	75,499	-	-	44,072	119,571	37%
2004	56,000	-	-	18,028	74,028	24%
Mr Ian Raymond (Inky) Cornelius						
2005	27,500	-	-	29,381	56,881	52%
2004	20,000	-	-	12,019	32,019	38%
Mr Roy Barry Rushworth (appointed 10 August 2005)						
Mr Lindsay Arthur Colless	-	-	-	-	-	

Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2005

Mr Mathew Arthur Battrick						
2004	-	-	-	-	-	-
2005	100,346	-	9,031	17,773	127,150	14%
Mr Ernest Anthony Myers						
2005	-	-	-	31,387	31,387	-
2004	-	-	-	-	-	

Table 3: Options granted as part of remuneration for the year ended 30 June 2005 (in accordance with the LTI plan)

Mr Henry David Kennedy	500,000
Mr Andrejs (Andrew) Karlis Svalbe	1,125,000
Mr Peter Lawson Munachen	750,000
Mr Ian Raymond (Inky) Cornelius	500,000
	<u>2,875,000</u>

@ From 1 July 2003, options granted as part of senior manager remuneration have been valued using a Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details.

Fair values of options:

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

	2005	2004	2003
Expected volatility	76.0%	50.0%	50.0%
Risk-free interest rate	5.1%	5.8%	4.0%
Expected life of option	5 years	5 years	5 years

Directors' Report continued

30 JUNE 2005

Number of options	Grant date	Vesting date	Weighted average fair value
1,100,000	22 Nov 04	22 Nov 04	0.06
2,875,000	29 Nov 04	29 Nov 04	0.06
250,000	2 Feb 05	2 Feb 05	0.04
250,000	2 Feb 05	2 Feb 05	0.03

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
Number of meetings held:	3
Number of meetings attended:	
Mr Henry David Kennedy	3
Mr Andrejs (Andrew) Karlis Svalbe	3
Mr Peter Lawson Munachen	3
Mr Ian Raymond (Inky) Cornelius	3
Mr Roy Barry Rushworth	N/A
Mr Lindsay Arthur Colless	0

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 20 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 INDEPENDENCE AND NON-AUDIT SERVICES

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

Directors' Report continued

30 JUNE 2005

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

In relation to our audit of the financial report of Pancontinental Oil & Gas NL for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Mr Graham R Swan

Lead Auditor

29 September 2005

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.

Mr Andrejs (Andrew) Karlis Svalbe

Director

Perth 29 September 2005

Corporate Governance Statement

30 JUNE 2005

STATEMENT

During the 2004/2005 financial year (the "Reporting Period") Pancontinental Oil & Gas NL (the "Company") has continued to operate in accordance with systems of control and accountability which the Company previously adopted. This report sets out the key corporate governance practices of the Company during the Reporting Period, providing disclosure to the extent recommended by the ASX in accordance with its "Principles of Good Corporate Governance and Best Practice Recommendations" (the "ASX Guidelines").

Commensurate with the spirit of the ASX Guidelines, the Company has followed each of the 28 Recommendations to the extent the Board considered that their implementation was practicable and likely to genuinely improve the Company's internal processes and accountability to external stakeholders. To the extent that the Company has adopted a practice that differs from the recommendations, disclosure is made of the Company's practice, and how that practice embraces the ASX Principles.

Additional information about the Company's corporate governance practices, including disclosure of the various charters, policies and procedures which form the Company's corporate governance framework, is set out on the Company's website at www.pancon.com.au.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

As at the end of the Reporting Period, there are few recommendations of the ASX that the Company does not follow. These relate directly to the structure of the Board, and are described more fully as follows:

Principle 2

Recommendation 2.1: A majority of the Board should be independent directors

Notification of Departure

Only one director is considered to be independent.

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 and its shareholders from both a long-term strategic and day-to-day operations perspective, and to achieve the objectives of the Company. Furthermore, mechanisms are in place to ensure the integrity of the financial accounts. The audit function is carried out by the independent director, who has recourse to the external auditor. The Board will continue to monitor the effectiveness of its structure and will make any changes as are deemed desirable as the Company continues to grow.

Recommendation 2.2: The chairperson should be an independent director

Notification of Departure

The chairman is not considered to be independent by virtue of his shareholding being considered "substantial" for the purposes of the Corporations Act.

Explanation for Departure

Mr Kennedy is the best qualified director for the role of chairman. The Board notes that he is not an executive of the Company; rather, he is precluded from being considered independent because of his shareholding. In this regard, the Board considers that the scope for conflict between the interests of the chairman and the other shareholders is minimal. To the contrary, the Board considers that Mr Kennedy's interests are aligned with that of other shareholders, and in this regard he has acted, and continues to act, in the best interests of the Company's shareholders.

Corporate Governance Statement continued

30 JUNE 2005

Principle 2

Recommendation 2.4: The Board should establish a Nomination Committee

Notification of Departure:

There is no nomination sub-committee.

Explanation for Departure:

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

Principle 4

Recommendation 4.2: The Board should establish an Audit Committee

Notification of Departure:

A separate audit committee has not been formed.

Explanation for Departure:

The composition of the Board is not suitable for the formation of an audit sub-committee (the independent director does not possess the requisite financial expertise to take on the full responsibilities of an audit committee). However, the Company has developed an audit review process whereby the independent director meet with the external auditor bi-annually and with finance management as required to ensure the highest possible degree of integrity of the Company's financial operations. The independent director uses an Audit Review Charter for this purpose.

Principle 9

Recommendation 9.2: The Board should establish a Remuneration Committee

Notification of Departure:

A separate remuneration committee has not been formed.

Explanation for Departure:

The Board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee. However, similarly to its approach to nomination-related matters, the Board has adopted a Remuneration Committee Charter, which it applies when convening as the remuneration committee.

SKILLS, EXPERIENCE, EXPERTISE AND TERM OF OFFICE OF EACH DIRECTOR

These details are contained in profiles in the Directors' Report.

IDENTIFICATION OF INDEPENDENT DIRECTORS

In considering independence of directors, the Board refers to the criteria for independence as recommended by the ASX. 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 Statement of Board and Management Functions, which is disclosed in full on the Company's website.

The Board has determined that Ian Cornelius is independent in accordance with the independence criteria. .

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 Chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

Corporate Governance Statement continued

30 JUNE 2005

AUDIT COMMITTEE MEMBERS AND MEETINGS

The Company does not have an audit sub-committee, as this is not practicable given the Board's composition. However, the independent member of the Board, Mr Cornelius, met twice with the external auditors during the Reporting Period.

NOMINATION COMMITTEE

The full Board carries out the role of the nomination committee. The full Board did not meet as the nomination committee, however nomination-related discussions also occurred from time to time during the year as required.

CONFIRMATION WHETHER PERFORMANCE EVALUATION OF THE BOARD AND ITS MEMBERS HAVE TAKEN PLACE AND HOW 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 made accordingly.

REMUNERATION COMMITTEE

The full Board carries out the role of the remuneration committee. The full Board met once formally as the remuneration committee during the Reporting Period, and discussed remuneration-related matters at other times during the year.

REMUNERATION POLICY

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The small number of Board members and key executives, and the overlap of functions carried out by the Board and key executives, has meant that a clear distinction between executive and non-executive remuneration is not feasible. However, 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. To the extent that non-executive directors perform services from time to time that exceed the commitment expected of them, they are eligible to receive additional fees as determined by the chairman.
- The Chief Executive Officer receives a fixed fee for his services as determined in accordance with external remuneration surveys. He does not receive any bonus or other performance-based remuneration, however his package is subject to review from time to time, and any adjustments made subject to approval of the full Board.
- The Executive Director - Finance and Corporate receives a fixed fee for his executive services (with no bonus or other performance-based remuneration), and a separate fixed fee for his services as a director.

All of the directors have received options that were issued with shareholder approval.

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

Name	Term in office	Name	Term in office
Henry David Kennedy	6 years	Andrejs Karlis Svalbe	7 years
Peter Lawson Munachen	14 years	Ian Raymond Cornelius	13 years
Roy Barry Rushworth	Appointed Aug 2005		

For additional details regarding Board appointments, please refer to our website.

Statement of Financial Performance

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from Ordinary Activities					
Interest received – other corporations		57,801	19,553	57,801	19,553
Recoupment of costs from joint venture		103,396	-	103,396	-
Other		-	1,523	-	-
Total revenues from ordinary activities		161,197	21,076	161,197	19,553
Depreciation and amortisation expenses	3	(7,052)	(3,756)	(7,052)	(3,756)
Salaries and employee benefits expense		(490,377)	(323,283)	(490,377)	(323,283)
Audit fees		(20,000)	(18,500)	(20,000)	(18,500)
Exploration costs written off		(657,524)	(75,241)	(657,184)	(74,744)
Annual report costs		(29,434)	(26,200)	(29,434)	(26,200)
ASX fees		(20,444)	(28,936)	(20,444)	(28,936)
Administration, accounting and secretarial fees		(148,140)	(157,266)	(148,140)	(157,266)
Insurance		(86,898)	(3,966)	(86,898)	(3,966)
Legal fees		(34,084)	(12,682)	(34,084)	(12,682)
Share registry costs		(31,454)	(14,680)	(31,454)	(14,680)
Rent and outgoings		(31,539)	(31,539)	(31,539)	(31,539)
Travel		(17,281)	(11,042)	(17,281)	(11,042)
Other expenses from ordinary activities		(75,906)	(60,168)	(77,329)	(61,112)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,488,936)	(736,800)	(1,490,019)	(737,247)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(1,488,936)	(736,800)	(1,490,019)	(737,247)
NET PROFIT		(1,488,936)	(736,800)	(1,490,019)	(737,247)
NET PROFIT ATTRIBUTABLE TO MEMBERS OF PANCONTINENTAL OIL & GAS NL	12	(1,488,936)	(736,800)	(1,490,019)	(737,247)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF PANCONTINENTAL OIL & GAS NL		(1,488,936)	(736,800)	(1,490,019)	(737,247)
Basic earnings per share (cents per share)		(0.9)	(0.5)		
Diluted earnings per share (cents per share)		(0.8)	(0.4)		

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

Statement of Financial Position

AT 30 JUNE 2005	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		2,860,015	1,732,671	2,860,015	1,732,671
Receivables	4	38,466	33,508	38,466	33,508
TOTAL CURRENT ASSETS		2,898,481	1,766,179	2,898,481	1,766,179
NON-CURRENT ASSETS					
Property, plant and equipment	6	19,603	7,107	19,603	7,107
Deferred exploration, evaluation and development costs	7	1,152,494	842,924	1,046,115	179,314
TOTAL NON-CURRENT ASSETS		1,172,097	850,031	1,065,718	799,421
TOTAL ASSETS		4,070,578	2,616,210	3,964,199	2,565,600
CURRENT LIABILITIES					
Payables	8	137,157	46,591	137,156	46,591
Provisions	9	40,245	29,815	40,245	29,815
TOTAL CURRENT LIABILITIES		177,402	76,406	177,401	76,406
NON-CURRENT LIABILITIES					
Amount due from controlled entity	10	-	-	498,050	552,737
TOTAL NON-CURRENT LIABILITIES		-	-	498,050	552,737
TOTAL LIABILITIES		177,402	76,406	675,451	629,143
NET ASSETS		3,893,176	2,539,804	3,288,748	1,936,457
EQUITY					
Parent entity interest					
Contributed equity	11	14,097,974	11,255,665	14,097,974	11,255,664
Retained profits	12	(10,204,798)	(8,715,862)	(10,809,226)	(9,319,207)
Total parent entity interest in equity		3,893,176	2,539,802	3,288,748	1,936,457
TOTAL EQUITY		3,893,176	2,539,802	3,288,748	1,936,457

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

Statement of Cash Flows

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(890,233)	(707,421)	(890,232)	(706,345)
Interest received		56,378	19,553	56,378	19,553
Sundry income		104,819	1,523	103,396	-
Expenditure on exploration interests interests		(970,293)	(422,862)	(914,184)	(372,253)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	13(a)	(1,699,329)	(1,109,207)	(1,644,642)	(1,059,045)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(15,637)	(3,394)	(15,637)	(3,394)
Other		-	(7,051)	-	(7,051)
Proceeds from divestment of project		-	602,900	-	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(15,637)	592,455	(15,637)	(10,445)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		2,842,310	2,174,979	2,842,310	2,174,979
Proceeds from borrowings - other		-	-	-	552,738
Repayments of borrowings - other		-	-	(54,687)	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		2,842,310	2,174,979	2,787,623	2,727,717
NET INCREASE/(DECREASE) IN CASH HELD		1,127,344	1,658,227	1,127,344	1,658,227
Add opening cash brought forward		1,732,671	74,444	1,732,671	74,444
CLOSING CASH CARRIED FORWARD	13(b)	2,860,015	1,732,671	2,860,015	1,732,671

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

Notes to the Financial Statements

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention and except where stated does not take into account changing money values or current valuations of non-current assets.

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(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. Unrealised losses are eliminated unless costs cannot be recovered.

(d) Foreign currencies

Translation of foreign currency transactions

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

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

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

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

(e) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

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 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest 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 uncollectable 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.

Notes continued

30 JUNE 2005

(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 (see Note 1(k)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. Of 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:	2005	2004
Plant and equipment:	13% - 27%	13% - 27%

(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) Exploration, evaluation, development and restoration costs

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

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

Amortisation

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

Restoration costs

Provisions for restoration costs relating to non-current assets are made for estimated costs relating to the remediation of soil, groundwater and untreated waste as soon as the need is identified.

Notes continued

30 JUNE 2005

(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.

Interest

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.

Notes continued

30 JUNE 2005

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.

The value of the equity-based compensation scheme described in note 19 is not being recognised as an employee benefits expense.

(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.

Notes continued

30 JUNE 2005

Notes continued

30 JUNE 2005

	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$

2. EXPENSES AND LOSSES/(GAINS)

(a) Expenses

Depreciation of non-current assets					
Office furniture and equipment		7,052	3,756	7,052	3,756
Total depreciation of non-current assets		7,052	3,756	7,052	3,756
Exploration, evaluation and development costs		657,524	75,241	657,524	75,241
Superannuation contributions		52,167	39,840	52,167	39,840

3. INCOME TAX

(a) Income Tax (Benefit)/Expense

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

Prima facie tax on profit from ordinary activities	(446,681)	(221,040)	(447,006)	(221,174)
Tax effect of permanent differences				
Other items (net)	4,483	996	4,483	996
Amount not brought to account as a carried forward future income tax benefit	442,198	220,044	442,523	220,178
Income tax expense attributable to ordinary activities	-	-	-	-

(b) Future Income Tax Benefit not taken into account

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

Tax Losses not brought to account	2,644,774	2,570,771	2,484,606	2,749,843
	2,644,774	2,570,771	2,484,606	2,749,843

This future income tax benefit will only be obtained if:

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

4. RECEIVABLES (CURRENT)

Sundry debtors	7,598	8,435	7,598	8,435
Short-term deposits	5,875	5,875	5,875	5,875
Goods and Services Tax receivable	24,994	18,022	24,994	18,022
Other receivables	(1)	1,176	(1)	1,176
Amounts other than trade debts receivable from related parties:				
	38,466	33,508	38,466	33,508

(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	
		2005	2004	2005	2004
		%	%	\$	\$
Starstrike Resources Limited	British Virgin Islands	100	100	380,000	380,000
Provision for diminution in value		-	-	(380,000)	(380,000)
Euro Pacific Energy Pty Ltd	Australia	100	100	2	2
Provision for diminution in value		-	-	(2)	(2)

Notes continued

30 JUNE 2005

	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
6. PROPERTY, PLANT AND EQUIPMENT					
Office equipment					
At cost		36,215	20,578	36,215	20,578
Less: Accumulated depreciation		(16,612)	13,471	(16,612)	13,471
Total written down amount		19,603	7,107	19,603	7,107
Reconciliations					
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.					
<i>Office equipment</i>					
Carrying amount at beginning		7,107	7,469	7,107	7,469
Additions		19,982	3,394	19,982	3,394
Disposals		(434)	-	(434)	-
Depreciation expense		(7,052)	(3,756)	(7,052)	(3,756)
		19,603	7,107	19,603	7,107

7. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

Exploration, evaluation and development costs carried forward in respect of mining areas of interest

Pre-production

- exploration and evaluation phases		1,152,494	842,924	1,152,494	842,924
		1,152,494	842,924	1,152,494	842,924

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 continued

30 JUNE 2005	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
8. PAYABLES (CURRENT)					
Trade creditors		137,157	46,591	137,156	46,591
		137,157	46,591	137,156	46,591
9. PROVISIONS (CURRENT)					
Employee benefits	15	40,245	29,815	40,245	29,815
		40,245	29,815	40,245	29,815
10. NON-CURRENT LIABILITIES					
Amount due from controlled entity		-	-	498,050	552,737
		-	-	498,050	552,737
11. CONTRIBUTED EQUITY					
(a) Issued and paid up capital					
Ordinary shares fully paid		14,097,974	11,255,665	14,097,974	11,255,665
		14,097,974	11,255,665	14,097,974	11,255,665
(b) Movements in shares on issue					
		2005		2004	
		Number of shares	\$	Number of shares	\$
Beginning of the financial year		167,266,166	11,255,665	145,795,117	9,266,979
Issued during the year					
– public equity raising		41,831,935	2,842,309	21,471,049	1,988,686
End of the financial year		209,098,101	14,097,974	167,266,166	11,255,665
12. RESERVES AND RETAINED PROFITS					
Retained profits		(10,204,798)	(8,715,862)	(10,809,217)	(9,319,207)
Retained profits					
Balance at the beginning of year		(8,715,862)	(7,979,062)	(9,318,761)	(8,581,961)
Net profit attributable to members of Pancontinental Oil & Gas NL		(1,488,936)	(736,800)	(1,488,936)	(736,800)
Total available for appropriation		(10,204,798)	(8,715,862)	(10,807,697)	(9,318,761)
Balance at end of year		(10,204,798)	(8,715,862)	(10,807,697)	(9,318,761)

Notes continued

30 JUNE 2005	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
13. STATEMENT OF CASH FLOWS					
(a) Reconciliation of the net profit after tax to the net cash flows from operations					
Net profit		(1,488,936)	(736,800)	(1,490,019)	(737,247)
Non-Cash Items					
Depreciation of non-current assets		7,052	3,756	7,052	3,756
Exploration expenditure written off		-	74,744	-	74,744
Changes in assets and liabilities					
(Increase)/decrease in trade and other receivables		837	(5,203)	837	(5,203)
(Increase)/decrease in exploration, evaluation and development costs		(319,277)	(422,862)	(263,507)	(372,253)
(Decrease)/increase in trade and other creditors		90,565	(17,657)	90,565	(17,657)
(Decrease)/increase in employee entitlements		10,430	(5,185)	10,430	(5,185)
Net cash flow from operating activities		<u>(1,699,329)</u>	<u>(1,109,207)</u>	<u>(1,644,642)</u>	<u>(1,059,045)</u>
(b) Reconciliation of cash					
Cash balance comprises:					
- cash assets		2,860,015	1,732,671	2,860,015	1,732,671
Closing cash balance		<u>2,860,015</u>	<u>1,732,671</u>	<u>2,860,015</u>	<u>1,732,671</u>
(c) Controlled Entities					
There were no acquisitions or disposals in the 2005 financial year.					
14. EXPENDITURE COMMITMENTS					
Capital expenditure commitments					
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:					
not later than one year					
- other		716,000	1,352,369	716,000	1,352,369
later than one year and not later than five years					
- other		6,510,000	5,117,431	6,510,000	5,117,431
later than five years					
		<u>7,226,000</u>	<u>6,469,800</u>	<u>7,226,000</u>	<u>6,469,800</u>
15. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS					
Employee Benefits					
The aggregate employee benefit liability is comprised of:					
Provisions (current)		40,245	29,815	40,245	29,815
		<u>40,245</u>	<u>29,815</u>	<u>40,245</u>	<u>29,815</u>

Notes continued

30 JUNE 2005

15. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (cont'd)

Employee Share Scheme

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

	2005		2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	-	0.15	7,025,000	0.15
- granted	4,475,000	-	5,250,000	-
- expired	(1,400,000)	-	-	-
Balance at end of year	3,075,000	-	12,275,000	0.15

Options held at the beginning of the reporting period

The following table summarises information about options held by employees as at 30 June 2005:

Number of options	Grant date	Expiry date	Weighted average exercise price
1,600,000	6 Dec 01	6 Dec 06	0.20
4,025,000	10 Dec 02	27 Dec 07	0.08
3,625,000	21 Nov 03	31 Dec 08	0.10
1,625,000	5 May 04	31 Dec 07	0.20
1,100,000	22 Nov 04	21 Nov 09	0.15
2,875,000	29 Nov 04	28 Nov 09	0.15
500,000	2 Feb 05	30 Jun 08	0.125

16. SUBSEQUENT EVENTS

On 5 August 2005, shareholders approved the acquisition by the company of Afrex Limited by the issue of 122,650,229 ordinary fully paid shares at a deemed issue price of \$0.0795 per share.

Notes continued

30 JUNE 2005	Notes	CONSOLIDATED		CHIEF ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$

17. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Net profit	(1,488,936)	(736,800)		
Adjustments:				
Earnings used in calculating basic and diluted earnings per share	<u>(1,488,936)</u>	<u>(736,800)</u>		
	Number of shares	Number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	171,865,788	153,755,686		
Effect of dilutive securities:				
Share options	<u>15,350,000</u>	33,022,563		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>187,215,788</u>	<u>186,778,249</u>		

18. AUDITORS' REMUNERATION

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	20,000	18,500	20,000	18,500
– other services in relation to the entity and any other entity in the consolidated entity	-	800	-	800
	<u>20,000</u>	<u>19,300</u>	<u>20,000</u>	<u>19,300</u>

19. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

Mr Henry David Kennedy	Chairman
Mr Andrejs (Andrew) Karlis Svalbe	Chief Executive Officer
Mr Peter Lawson Munachen	Finance Director
Mr Ian Raymond (Inky) Cornelius	Non-executive Director
Mr Roy Barry Rushworth	Director - New Ventures
Mr Lindsay Arthur Colless	Alternate Director

(ii) Specified executives

Mr Mathew Arthur Battrick	Exploration Manager
Mr Ernest Anthony Myers	Company Secretary

Total Remuneration for all non-executive directors, last voted upon by shareholders at the 2004 AGM, is not to exceed \$200,000 per annum and are set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently \$35,000 per annum.

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.

Executive and non-executive directors do not receive any termination or retirement benefits.

Notes continued

30 JUNE 2005

19. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

(b) Remuneration of Specified Directors and Specified Executives

	Salary & Fees	Primary Cash Bonus	Non Monetary benefits	Post Employment Superannuation	Retirement benefits	Equity Options	Other Bonuses	Total
Specified directors								
Mr Henry David Kennedy								
2005	35,000	-	-	-	-	29,381	-	64,381
2004	20,000	-	-	-	-	12,019	-	-
Mr Andrejs (Andrew) Karlis Svalbe								
2005	167,789	-	-	43,136	-	66,108	-	277,033
2004	157,627	-	-	39,840	-	27,042	-	-
Mr Peter Lawson Munachen								
2005	75,499	-	-	-	-	44,072	-	119,571
2004	56,000	-	-	-	-	18,028	-	-
Mr Ian Raymond (Inky) Cornelius								
2005	27,500	-	-	-	-	29,381	-	56,881
2004	20,000	-	-	-	-	12,019	-	-
Mr Roy Barry Rushworth	-	-	-	-	-	-	-	-
Mr Lindsay Arthur Colless	-	-	-	-	-	-	-	-
Total Remuneration: Specified Directors								
2005	305,788	-	-	43,136	-	168,942	-	517,866
2004	253,627	-	-	39,840	-	69,108	-	362,575
Specified Executives								
Mr Mathew Arthur Battrick								
2005	100,346	-	-	9,031	-	17,773	-	127,150
Mr Ernest Anthony Myers								
2005	-	-	-	-	-	31,387	-	31,387
2004	-	-	-	-	-	-	-	-
Total Remuneration: Specified Executives								
2005	100,346	-	-	9,031	-	49,160	-	158,537
2004*	-	-	-	-	-	-	-	-

* Group totals in respect of the financial year ended 2004 do not necessarily equal the sums of amounts disclosed for 2004 for individuals specified in 2005, as different individuals were specified in 2004.

Notes continued

30 JUNE 2005

19. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

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

	Granted Number	Grant Date	Terms & Conditions for Each Grant			
			Value per option at grant date (\$)	Exercise Price per share (\$)	First Exercise Date	Last Exercise Date
Specified Directors						
Mr Henry David Kennedy	500,000	29 Nov 2004	0.06	0.15	28 May 2005	28 Nov 2009
Mr Andrejs (Andrew) Karlis Svalbe	1,125,000	29 Nov 2004	0.06	0.15	28 May 2005	28 Nov 2009
Mr Peter Lawson Munachen	750,000	29 Nov 2004	0.06	0.15	28 May 2005	28 Nov 2009
Mr Ian Raymond (Inky) Cornelius	500,000	29 Nov 2004	0.06	0.15	28 May 2005	28 Nov 2009
Specified Executives						
Mr Mathew Arthur Battrick	250,000	2 Feb 2005	0.04	0.10	1 Aug 2005	30 Jun 2008
Mr Mathew Arthur Battrick	250,000	2 Feb 2005	0.03	0.15	1 Aug 2005	30 Jun 2008
Mr Ernest Anthony Myers	500,000	22 Nov 2004	0.06	0.20	21 May 2005	21 Nov 2009
Ms Janice Marie Godsall	200,000	22 Nov 2004	0.06	0.20	21 May 2005	21 Nov 2009
Mr Darryl Richard Malacari	150,000	22 Nov 2004	0.06	0.20	21 May 2005	21 Nov 2009
Ms Mandy Louise Walker	100,000	22 Nov 2004	0.06	0.20	21 May 2005	21 Nov 2009
Ms Amber Renee Frangos	75,000	22 Nov 2004	0.06	0.20	21 May 2005	21 Nov 2009
Mrs Stephanie Hodge	75,000	22 Nov 2004	0.06	0.20	21 May 2005	21 Nov 2009
Total	4,475,000					

(d) Option holdings of specified directors and specified executives

	Balance at beginning of period 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2005
Specified Directors					
Mr Henry David Kennedy	3,622,222	500,000	-	(2,422,222)	1,700,000
Mr Andrejs (Andrew) Karlis Svalbe	3,450,000	1,125,000	-	(600,000)	3,975,000
Mr Peter Lawson Munachen	1,920,000	750,000	-	(220,000)	2,450,000
Mr Ian Raymond (Inky) Cornelius	1,400,000	500,000	-	(200,000)	1,700,000
Mr Lindsay Arthur Colless	200,266	-	-	(266)	200,000
Specified Executives					
Mr Mathew Arthur Battrick	-	500,000	-	-	500,000
Mr Ernest Anthony Myers	500,000	500,000	-	-	1,000,000
Total	11,092,488	3,875,000	-	(3,442,488)	11,525,000

Notes continued

30 JUNE 2005

19. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

(e) Shareholdings of Specified Directors and Specified Executives

Shares held in Pancontinental Oil & Gas NL	Balance 1 July 2004		Balance 30 June 2005	
	Ord		Ord	
Specified Directors				
Mr Henry David Kennedy	26,855,164		26,855,164	
Mr Andrejs (Andrew) Karlis Svalbe	300,000		300,000	
Mr Peter Lawson Munachen	50,000		50,000	
Mr Lindsay Arthur Colless	1,332		1,332	
Total	27,206,496		27,206,496	
Specified Executives				
Mr Mathew Arthur Battrick	-		-	
Mr Ernest Anthony Myers	-		-	
Total	-		-	

20. SEGMENT INFORMATION

Segment accounting policies

The economic entity operates predominately in the petroleum exploration industry and in the Australasian-Pacific and North and West African geographic region.

21. FINANCIAL INSTRUMENTS

Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$	%	%
<i>(i) Financial assets</i>								
Cash	2,860,015	1,732,671	-	-	2,860,015	1,732,671	3.6	3.2
Trade and other receivables	-	-	32,591	20,582	32,591	20,582	-	-
Short term deposits	-	-	5,875	5,875	5,875	5,875	-	-
Total financial assets	2,860,015	1,732,671	38,466	26,457	2,898,481	1,759,128		
<i>(ii) Financial liabilities</i>								
Trade creditors	-	-	130,556	46,591	130,556	46,591	-	-
Total financial liabilities	-	-	130,556	46,591	130,556	46,591		

(iii) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised financial instruments

Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables, trade creditors and dividends receivable: The carrying amount approximates fair value.

Notes continued

30 JUNE 2005

23. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

Unrecognised financial instruments

Options over ordinary shares: The fair value of options over ordinary shares is determined using the Black-Scholes option pricing model.

Credit risk exposures

Concentrations of credit risk

The company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with credit worthy parties.

Foreign exchange risk

The consolidated entity has overseas exploration commitments principally in US dollars. There are no forward foreign exchange contracts in place at this time.

22. RELATED PARTY

During the year the company paid an administration fee of \$75,499 (2004 -\$56,000) to Corraline Pty Ltd, a company of which Mr Munachen is a director to cover the provision of financial and corporate services. Refer note 19.

During the year the Company paid management and administration fees to Resource Services International Limited, a company of which Messrs Kennedy and Munachen are directors to cover the provision of corporate management, accounting and administration services. The amount paid to Resource Services International Limited was \$148,140 (2004- \$157,267).

During the year the company paid a consulting fee 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 \$27,500 (2004 - \$20,000). Refer note 19.

During the year the company paid a consulting fee to Rockfield Investments Ltd a company in which Mr Kennedy has a financial interest, for consulting services. The amount paid to Rockfield Investments Ltd was \$35,000 (2004 - \$20,000). Refer note 19.

23. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Pancontinental Oil & Gas NL is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. In 2004, the company allocated internal resources to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Pancontinental Oil & Gas NL's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Pancontinental Oil & Gas NL prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Expected changes to accounting policies on adoption of AIFRS

(a) Taxation

Under AASB 112, the Australian equivalent to IAS 12 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "income statement liability method". This method recognizes deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

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

(b) Impairment of Assets

Under the Australian equivalent to IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change to the Company's current accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cashflows. Under the new policy it is likely that the impairment of assets will be recognized sooner and the amount of write downs will be greater.

(c) Share based payments

Under AASB 2 "Share Based Payments", the Company will be required to bring to account the effect of share-based payments including options, on its financial performance and financial position.

Notes continued

30 JUNE 2005

23. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

The Company will not apply AASB 2 to existing partly paid shares at 1 July 2004 as AASB 1 (25B) allows relief from its application for first time adoption of AIFRS. Any shares that are not vested by 1 January 2005 or are granted after this date will be recognised as an expense with a corresponding increase in equity. The fair values will be measured at grant date taking into account market performance conditions.

The above analysis is management's best estimate of the impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the above due to (a) ongoing work being undertaken on the AIFRS project; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

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 2005 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 2005.

On behalf of the Board

Mr Andrejs (Andrew) Karlis Svalbe
Director

Perth 29 September 2005

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

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Pancontinental Oil & Gas NL (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with 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.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

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

Audit Opinion

In our opinion, the financial report of Pancontinental Oil & Gas NL is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Pancontinental Oil & Gas NL and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Rothsay

Mr Graham R Swan

Partner

Sydney

Date: 29 September 2005

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 19 September 2005.

(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	301	85,890
1,001	- 5,000	160	518,318
5,001	- 10,000	208	1,768,331
10,001	- 100,000	1,087	47,609,613
100,001	and over	398	281,766,178
		2,154	331,748,330
The number of shareholders holding less than a marketable parcel of shares are:		495	793,599

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Troy Resources Limited	94,176,040	28.38
2	Skye Grantees Limited	23,026,040	6.94
3	Nefco Nominees Pty Ltd	22,785,000	6.87
4	Mr Robert Albert Boas	7,525,000	2.29
5	Mr Roy Barry Rushworth	5,054,647	1.52
6	Alwyn Resources Limited	4,035,014	1.22
7	Suparell Pty Ltd <The Farrell Fam S F A/C>	4,000,000	1.20
8	ANZ Nominees Limited <Cash Income A/C>	3,073,440	0.92
9	Merrill Lynch (Australia) Nominees Pty Ltd	2,457,311	0.74
10	Westpac Custodian Nominees Limited	2,116,000	0.63
11	CIMB-GK Securities Pte Ltd <Client A/C>	2,050,000	0.62
12	Mr Desmond Joseph Keegan	2,000,000	0.60
13	Forty Traders Limited	1,875,000	0.56
14	Hubbard and Churcher Trust Management Ltd	1,800,000	0.54
15	Mr Alan Robert and Mrs Clara Elizabeth Haldane	1,625,000	0.49
16	Ms Joanne Jolob	1,550,000	0.46
17	Citicorp Nominees Pty Ltd	1,356,666	0.41
18	Mr Thomas Fleet Scaife	1,250,000	0.38
19	Quatri Pty Ltd <Quatri Super Fund A/C>	1,250,000	0.38
20	Beremes Nominees Pty Ltd <Beremes Super Fund A/C>	1,250,000	0.38
		184,255,158	55.53

(c) Voting rights

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

(d) Substantial Shareholders	Number of Shares
The details of substantial shareholders as disclosed in substantial shareholder notices received by the Company are set out below: Rockfield Investments Limited and its subsidiaries Sundowner International Limited, Alwyn Resources Limited, Troy Resources Limited, Henry David Kennedy and Graeme McKinnon Menzies	121,031,204
Roy Barry Rushworth and Skye Grantees Limited as trustee for the Mulberry Trust	28,080,687

(e) Permit Schedule

Permits and Licence Interests	Permit reference	Interest
Petroleum prospects		
Western Australia	EP 104 (R4)	8.0 %
	EP 406	5%
	WA-340-P	20%
	EP 110	25%
	EP 424	25%
New Zealand	PEP 38716	9.42%
Malta	Area 5	80%
	Block 3 of Area 4	80%
Kenya	L6	100%
	L8	100%
	L9	100%
Morocco	Mediterranee Est. Block**	100% - diluting to 80%

** Awaiting award of R/L.