

Pancontinental Oil & Gas NL

ABN 95 003 029 543

Annual Financial Report

for the year ended 30 June 2006

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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Perth WA 6000
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Share Register

Advanced Share Registry Services
PO Box 1156
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Auditors

Rothsay

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ASX Code

PCL

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Directors' Report

30 June 2006

Your directors submit their report for the year ended 30 June 2006.

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, 70, 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 NL 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) and Sub-Sahara Resources NL (since 1996). Formerly a director of Alkane Exploration Ltd (2000 to 2006) and an alternate director since 31 July 2006.

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

Mr Svalbe, 63, 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, 60, 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) and Newland Resources Limited (since 2001).

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

Mr Cornelius, 65, 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 also a director of New World Alloys Ltd (since 2003). He was Chairman of Alkane Exploration Ltd from 1986 until 31 July 2006, but remains a non-executive director of that company.

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

Mr Rushworth, 54, 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, 61 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 2006

COMPANY SECRETARY

Mr Ernest Anthony Myers, CPA

Mr Myers is an Accountant with over 25 years corporate and company secretarial experience. He also has experience in ASX Compliance and regulatory requirements. He is currently company secretary of three ASX Listed entities and has been company secretary of Pancontinental Oil & Gas NL since March 2004.

| | Ordinary Shares | Options over Ordinary Shares |
|-----------------------------------|-----------------|---------------------------------|
| Mr Henry David Kennedy | 121,031,204 | 2,450,000 |
| Mr Andrejs (Andrew) Karlis Svalbe | 375,000 | 6,225,000 |
| Mr Peter Lawson Munachen | 62,500 | 3,950,000 |
| Mr Ian Raymond (Inky) Cornelius | - | 2,450,000 |
| Mr Roy Barry Rushworth | 28,080,687 | 1,500,000 |
| Mr Lindsay Arthur Colless | 1,332 | 200,000 |
| EARNINGS PER SHARE | | Cents |
| Basic earnings (loss) per share | | (0.49) |
| Diluted earnings (loss) per share | | (0.49) |

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 2006 (2005: two employees).

OPERATING AND FINANCIAL REVIEW

Review of Operations

During the year the consolidated entity reached agreement for the farmout of Kenya Blocks L8 and L9 with Origin Energy Kenya Proprietary Limited requiring them to fund US\$4 million of 2D seismic across both blocks to earn 50%. Origin then has an option to increase its equity to 75% by drilling one exploration well in each block.

A Farm-out Agreement for Kenya Block L6 was also signed with Gippsland Offshore Petroleum Limited (GOP) requiring GOP to fund US\$1.9 million of 2D seismic and other geophysical surveys to earn 60%..

Almost 200 kilometers of 2D seismic was acquired in offshore Carnarvon Basin EP's 110, 424 and 340, aimed at delineating prospects for possible drilling early in 2007, particularly the Baniyas Prospect in EP-424.

Farm-out negotiations were also completed for the drilling of the Stokes Bay-1 well in EP-104 to appraise the Point Torment-1 gas discovery planned to be drilled mid 2007.

Directors' Report continued

30 June 2006

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 2006

Operating Results for the Year

Summarised operating results are as follows:

| | 2006 | |
|---|----------|-------------|
| | Revenues | Results |
| | \$ | \$ |
| Non-segment and unallocated revenues | 52,429 | (1,573,807) |
| Consolidated entity sales and profit from ordinary activities before income tax expense | 52,429 | (1,573,807) |

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.

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---------------------------------|-------|-------|--------|--------|--------|
| Basic earning per share (cents) | (0.5) | (0.9) | (0.05) | (0.01) | (0.01) |

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 since the year end by raising \$1.3 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

Since the end of the financial year, the group has raised \$1.3 million which is sufficient to finance the 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:

- 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 2006

- 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 7 August 2006, the Company raised \$1.3 million by the issue of 25,000,000 ordinary fully paid shares at an issue price of \$0.0525 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 24,850,000 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

No options were exercised 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 AK Svalbe, Mr PL Munachen, Mr IR Cornelius, Mr EA Myers 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 2,250,000 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 2006

Remuneration committee

The remuneration committee comprises Messrs Kennedy and Cornelius. The committee met twice 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 2006 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.

Company performance

Company performance is also 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 alliance with other companies to progress the portfolio of projects.

Directors' Report continued

30 JUNE 2006

Table 1: Director remuneration for the year ended 30 June 2006

| | Primary benefits | | Post | Equity | Total | Value of options as proportion of Revenue |
|---|------------------|----------|------------------------------|----------------|----------------|---|
| | Salary & Fees | Cash STI | Employment Superannuation | Options | | |
| Mr Henry David Kennedy | | | | | | |
| 2006 | 46,250 | - | - | 34,669 | 80,919 | 43% |
| 2005 | 35,000 | - | - | 29,381 | 64,381 | 46% |
| Mr Andrejs (Andrew) Karlis Svalbe | | | | | | |
| 2006 | 149,198 | - | 74,841 | 104,006 | 328,045 | 32% |
| 2005 | 167,789 | - | 43,136 | 66,108 | 277,033 | 24% |
| Mr Peter Lawson Munachen | | | | | | |
| 2006 | 83,000 | - | - | 69,337 | 152,337 | 46% |
| 2005 | 75,499 | - | - | 44,072 | 119,571 | 37% |
| Mr Ian Raymond (Inky) Cornelius | | | | | | |
| 2006 | 35,000 | - | - | 34,669 | 69,669 | 50% |
| 2005 | 27,500 | - | - | 29,381 | 56,881 | 52% |
| Mr Roy Barry Rushworth (appointed 10 August 2005) | | | | | | |
| 2006 | 164,732 | - | - | 69,337 | 234,069 | 30% |
| Mr Lindsay Arthur Colless | | | | | | |
| 2006 | - | - | - | - | - | - |
| 2005 | - | - | - | - | - | - |

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

| | | | | | | |
|---------------------------|----------------|---|---------------|---------------|----------------|------------|
| Mr Mathew Arthur Battrick | | | | | | |
| 2006 | 160,551 | - | 14,450 | 46,225 | 221,226 | 21% |
| 2005 | 100,346 | - | 9,031 | 17,773 | 127,150 | 14% |
| Mr Ernest Anthony Myers | | | | | | |
| 2006 | - | - | - | 46,225 | 46,225 | - |
| 2005 | - | - | - | 31,387 | 31,387 | - |

Table 3: Options granted as part of remuneration for the year ended 30 June 2006 (in accordance with the Employee Incentive Scheme)

| | |
|-----------------------------------|------------------|
| Mr Henry David Kennedy | 750,000 |
| Mr Andrejs (Andrew) Karlis Svalbe | 2,250,000 |
| Mr Peter Lawson Munachen | 1,500,000 |
| Mr Ian Raymond (Inky) Cornelius | 750,000 |
| Mr Roy Barry Rushworth | 1,500,000 |
| | 6,750,000 |

@ From 1 July 2003, options granted as part of director and management remuneration have been valued using a Black Scholes 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.

Directors' Report continued

30 JUNE 2006

Fair values of options:

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

| | 2006 | 2005 | 2004 | 2003 |
|-------------------------|---------|---------|---------|---------|
| Expected volatility | 77.9% | 76.0% | 50.0% | 50.0% |
| Risk-free interest rate | 5.32% | 5.1% | 5.8% | 4.0% |
| Expected life of option | 5 years | 5 years | 5 years | 5 years |

Directors' Report continued

30 JUNE 2006

| 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 |
| 9,500,000 | 29 Nov 05 | 28 May 06 | 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 | Remuneration Committee |
|-------------------------------------|---------------------|------------------------|
| Number of meetings held: | 2 | 2 |
| Number of meetings attended: | | |
| Mr Henry David Kennedy | 2 | 2 |
| Mr Andrejs (Andrew) Karlis Svalbe | 2 | N/A |
| Mr Peter Lawson Munachen | 2 | N/A |
| Mr Ian Raymond (Inky) Cornelius | 2 | 2 |
| Mr Roy Barry Rushworth | 2 | N/A |
| Mr Lindsay Arthur Colless | 0 | N/A |

Notes

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

ROUNDING

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

Directors' Report continued

30 JUNE 2006

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 2006, 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

27 September 2006

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 27 September 2006

Corporate Governance Statement

30 JUNE 2006

STATEMENT

During the 2005/2006 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 internal 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

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 2006

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.

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 2006

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 remuneration committee met twice 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.
- The Director – New Ventures 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 | 7 years | Andrejs Karlis Svalbe | 8 years |
| Peter Lawson Munachen | 15 years | Ian Raymond Cornelius | 14 years |
| Roy Barry Rushworth | Appointed Aug 2005 | | |

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

Income Statements

YEAR ENDED 30 JUNE 2006

| | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|---|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2006 | 2005 | 2005 | 2005 |
| | | \$ | \$ | \$ | \$ |
| Revenue from Ordinary Activities | | | | | |
| Interest received – other corporations | | 51,691 | 57,801 | 51,691 | 57,801 |
| Recoupment of costs from joint venture | | - | 103,396 | - | 103,396 |
| Other | | 738 | - | - | - |
| Total revenues from ordinary activities | | 52,429 | 161,197 | 51,691 | 161,197 |
| Depreciation and amortisation expenses | 3 | (8,599) | (7,052) | (8,599) | (7,052) |
| Salaries and employee benefits expense | | (556,396) | (490,377) | (556,396) | (490,377) |
| Audit fees | | (13,100) | (20,000) | (13,100) | (20,000) |
| Exploration costs written off | | (466,463) | (657,524) | (160,447) | (657,184) |
| Annual report costs | | (32,223) | (29,434) | (32,223) | (29,434) |
| ASX fees | | (17,872) | (20,444) | (17,872) | (20,444) |
| Administration, accounting and secretarial fees | | (171,276) | (148,140) | (171,276) | (148,140) |
| Insurance | | (74,279) | (86,898) | (74,279) | (86,898) |
| Legal fees | | (15,977) | (34,084) | (15,977) | (34,084) |
| Share registry costs | | (8,791) | (31,454) | (8,791) | (31,454) |
| Rent and outgoings | | (55,817) | (31,539) | (55,817) | (31,539) |
| Travel | | (25,284) | (17,281) | (25,284) | (17,281) |
| Other expenses from ordinary activities | | (180,158) | (150,192) | (179,946) | (151,614) |
| LOSS BEFORE INCOME TAX EXPENSE | | (1,573,807) | (1,563,222) | (1,268,317) | (1,564,304) |
| Income Tax Expense | | - | - | - | - |
| NET LOSS | 12 | (1,573,807) | (1,563,222) | (1,268,317) | (1,564,304) |
| Basic earnings per share (cents per share) | | (0.5) | (0.9) | | |
| Diluted earnings per share (cents per share) | | (0.5) | (0.8) | | |

The Income Statements are to be read in conjunction with the Notes to the Financial Statements.

Balance Sheets

| AT 30 JUNE 2006 | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|--|-------|---------------------|--------------|---------------------|--------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash assets | | 595,183 | 2,860,015 | 595,183 | 2,860,015 |
| Trade and other receivables | 4 | 156,320 | 38,466 | 156,320 | 38,466 |
| TOTAL CURRENT ASSETS | | 751,503 | 2,898,481 | 751,503 | 2,898,481 |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 6 | 11,723 | 19,603 | 11,723 | 19,603 |
| Deferred exploration, evaluation and development costs | 7 | 11,591,984 | 1,152,362 | 1,488,311 | 1,045,983 |
| Interests in subsidiaries | 5 | - | - | 9,750,693 | - |
| TOTAL NON-CURRENT ASSETS | | 11,603,707 | 1,171,965 | 11,304,767 | 1,065,586 |
| TOTAL ASSETS | | 12,355,210 | 4,070,446 | 12,056,270 | 3,964,067 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 8 | 109,576 | 137,157 | 109,574 | 137,156 |
| Provisions | 9 | 44,275 | 40,245 | 44,275 | 40,245 |
| TOTAL CURRENT LIABILITIES | | 153,849 | 177,402 | 153,849 | 177,401 |
| NON-CURRENT LIABILITIES | | | | | |
| Amount due from controlled entity | 10 | - | - | - | 498,050 |
| TOTAL NON-CURRENT LIABILITIES | | - | - | - | 498,050 |
| TOTAL LIABILITIES | | 153,851 | 177,402 | 153,849 | 675,451 |
| NET ASSETS | | 12,201,359 | 3,893,044 | 11,902,421 | 3,288,616 |
| EQUITY | | | | | |
| Parent entity interest | | | | | |
| Contributed equity | 11 | 23,827,868 | 14,097,974 | 23,827,868 | 14,097,974 |
| Reserves | 12 | 226,382 | 74,154 | 226,382 | 74,154 |
| Accumulated losses | 12 | (11,852,891) | (10,279,084) | (12,151,829) | (10,883,512) |
| Total parent entity interest in equity | | 12,201,359 | 3,893,044 | 11,902,421 | 3,288,616 |
| TOTAL EQUITY | | 12,201,359 | 3,893,044 | 11,902,421 | 3,288,616 |

The Balance Sheets are to be read in conjunction with the Notes to the Financial Statements.

Statements of Changes in Equity

| AT 30 JUNE 2006 | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|---|-------|--------------------|-------------|--------------------|-------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| TOTAL EQUITY AT BEGINNING OF THE FINANCIAL YEAR | | 3,893,044 | 2,539,803 | 3,288,616 | 1,936,326 |
| LOSS FOR THE YEAR | | (1,573,807) | (1,563,222) | (1,268,317) | (1,564,173) |
| TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF PANCONTINENTAL OIL & GAS NL | | (1,573,807) | (1,563,222) | (1,268,317) | (1,564,173) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Share issues | | 9,729,894 | 2,842,309 | 9,729,894 | 2,842,309 |
| Directors and employee options | | 152,228 | 74,154 | 152,228 | 74,154 |
| TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR | | 12,201,359 | 3,893,044 | 11,902,421 | 3,288,616 |

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

Statement of Cash Flows

| YEAR ENDED 30 JUNE 2006 | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|---|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Payments to suppliers and employees | | (1,140,352) | (890,233) | (1,020,220) | (890,232) |
| Interest received | | 51,691 | 56,378 | 51,691 | 56,378 |
| Sundry income | | 738 | 104,819 | - | 103,396 |
| Expenditure on exploration interests | | (1,155,391) | (970,293) | (722,695) | (914,184) |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | 13(a) | (2,243,314) | (1,699,329) | (1,691,224) | (1,644,642) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of property, plant and equipment | | (719) | (15,637) | (719) | (15,637) |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | (719) | (15,637) | (719) | (15,637) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issues of ordinary shares | | (20,799) | 2,842,310 | (20,799) | 2,842,310 |
| Repayments of borrowings - other | | - | - | (552,090) | (54,687) |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | (20,799) | 2,842,310 | (572,889) | 2,787,623 |
| NET INCREASE/(DECREASE) IN CASH HELD | | (2,264,832) | 1,127,344 | (2,264,832) | 1,127,344 |
| Add opening cash brought forward | | 2,860,015 | 1,732,671 | 2,860,015 | 1,732,671 |
| CLOSING CASH CARRIED FORWARD | 13(b) | 595,183 | 2,860,015 | 595,183 | 2,860,015 |

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 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report was authorised for issue by the Directors on 27 September 2006.

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 IFRSs (AIFRS) to distinguish from previous Australian GAAP. The financial report complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the first financial report prepared in accordance with AIFRS and AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cashflow is provided in note 23.

Basis of preparation

It 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. 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.

Notes to the Financial Statements

30 JUNE 2006

(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 2006

(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: | 2006 | 2005 |
| 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 2006

(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 2006

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 | CONSOLIDATED | | CHIEF ENTITY | |
|--------------|-------|--------------|------|--------------|------|
| | | 2006 | 2005 | 2005 | 2005 |
| | | \$ | \$ | \$ | \$ |

2. EXPENSES AND LOSSES/(GAINS)

(a) Expenses

| | | | | | |
|---|--|----------------|---------|----------------|---------|
| Depreciation of non-current assets | | | | | |
| Office furniture and equipment | | 8,599 | 7,052 | 8,599 | 7,052 |
| Total depreciation of non-current assets | | 8,599 | 7,052 | 8,599 | 7,052 |
| Exploration, evaluation and development costs | | 466,463 | 657,524 | 160,447 | 657,524 |
| Superannuation contributions | | 165,229 | 52,167 | 165,229 | 52,167 |

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 | (472,142) | (446,681) | (380,495) | (447,006) |
| Tax effect of permanent differences | | | | |
| Other items (net) | 53,205 | 4,483 | 53,205 | 4,483 |
| Amount not brought to account as a carried forward future income tax benefit | 418,937 | 442,198 | 327,290 | 442,523 |
| 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 | 3,290,743 | 2,644,774 | 3,068,592 | 2,484,606 |
| | 3,290,743 | 2,644,774 | 3,068,592 | 2,484,606 |

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.

Notes continued

| 30 JUNE 2005 | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|-----------------------------------|-------|----------------|--------|----------------|--------|
| | | 2006 | 2005 | 2005 | 2005 |
| | | \$ | \$ | \$ | \$ |
| 4. RECEIVABLES (CURRENT) | | | | | |
| Sundry debtors | | 133,668 | 7,598 | 133,668 | 7,598 |
| Short-term deposits | | 5,875 | 5,875 | 5,875 | 5,875 |
| Goods and Services Tax receivable | | | 24,994 | | 24,994 |
| Other receivables | | | (1) | - | (1) |
| | | 156,320 | 38,466 | 156,320 | 38,466 |

(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 | |
|-----------------------------------|--------------------------|---|------|------------------|-----------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | % | % | \$ | \$ |
| 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) |
| Afrex Limited | Saint Lucia | 100 | - | 9,750,693 | - |

Notes continued

30 JUNE 2006

| | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|--|-------|-----------------|----------|-----------------|----------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| 6. PROPERTY, PLANT AND EQUIPMENT | | | | | |
| Office equipment | | | | | |
| At cost | | 36,934 | 36,215 | 36,934 | 36,215 |
| Less: Accumulated depreciation | | (25,211) | (16,612) | (25,211) | (16,612) |
| Total written down amount | | 11,723 | 19,603 | 11,723 | 19,603 |
| 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 | | 19,603 | 7,107 | 19,603 | 7,107 |
| Additions | | 719 | 19,982 | 719 | 19,982 |
| Disposals | | - | (434) | - | (434) |
| Depreciation expense | | (8,599) | (7,052) | (8,599) | (7,052) |
| | | 11,723 | 19,603 | 11,723 | 19,603 |

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 | 11,591,984 | 1,152,362 | 1,488,311 | 1,045,983 |
| | 11,591,984 | 1,152,362 | 1,488,311 | 1,045,983 |

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 2006

| | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|---|-------|-------------------------|-------------------|-------------------------|--------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| 8. PAYABLES (CURRENT) | | | | | |
| Trade creditors | | 109,576 | 137,157 | 109,574 | 137,156 |
| | | 109,576 | 137,157 | 109,574 | 137,156 |
| 9. PROVISIONS (CURRENT) | | | | | |
| Employee benefits | 15 | 44,275 | 40,245 | 44,275 | 40,245 |
| | | 44,275 | 40,245 | 44,275 | 40,245 |
| 10. NON-CURRENT LIABILITIES | | | | | |
| Amount due from controlled entity | | - | - | - | 498,050 |
| | | - | - | - | 498,050 |
| 11. CONTRIBUTED EQUITY | | | | | |
| (a) Issued and paid up capital | | | | | |
| Ordinary shares fully paid | | 14,097,974 | 14,097,974 | 14,097,974 | 14,097,974 |
| | | 14,097,974 | 14,097,974 | 14,097,974 | 14,097,974 |
| (b) Movements in shares on issue | | | | | |
| | | 2006 | | 2005 | |
| | | Number of shares | \$ | Number of shares | \$ |
| Beginning of the financial year | | 209,098,101 | 14,097,974 | 167,266,166 | 11,255,665 |
| Issued during the year | | | | | |
| – issued for acquisition | | 122,650,229 | 9,729,894 | | |
| – public equity raising | | - | - | 41,831,935 | 2,842,309 |
| End of the financial year | | 331,748,330 | 23,827,868 | 209,098,101 | 14,097,974 |
| 12. RESERVES AND ACCUMULATED LOSSES | | | | | |
| | | 2006 | 2005 | 2006 | 2005 |
| Reserves | | \$ | \$ | \$ | \$ |
| Beginning of the financial year | | 74,154 | - | 74,154 | - |
| Directors and employee options issued | | 152,228 | 74,154 | 152,228 | 74,154 |
| End of the financial year | | 226,382 | 74,154 | 226,382 | 74,154 |
| Accumulated losses | | (11,852,891) | (10,279,084) | (12,151,829) | (10,883,512) |
| Accumulated losses | | | | | |
| Beginning of the financial year | | (10,279,084) | (8,715,862) | (10,883,512) | (9,319,208) |
| Net loss attributable to members of Pancontinental Oil & Gas NL | | (1,573,807) | (1,563,222) | (1,268,317) | (1,564,304) |
| Total available for appropriation | | (11,852,891) | (10,279,084) | (12,151,829) | (10,883,512) |
| End of the financial year | | (11,852,891) | (10,279,084) | (12,151,829) | (10,883,512) |

Notes continued

30 JUNE 2006

Notes

CONSOLIDATED

CHIEF ENTITY

2006

2005

2006

2005

\$

\$

\$

\$

13. STATEMENT OF CASH FLOWS

(a) Reconciliation of the net loss after tax to the net cash flows from operations

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Net loss | (1,573,807) | (1,563,222) | (1,268,317) | (1,564,304) |
| Non-Cash Items | | | | |
| Depreciation of non-current assets | 8,599 | 7,052 | 8,599 | 7,052 |
| Exploration expenditure written off | 466,463 | - | 160,447 | - |
| Options | 152,228 | 74,154 | 152,228 | 74,154 |
| Changes in assets and liabilities | | | | |
| Decrease in trade and other receivables | 2,065 | 837 | 2,065 | 837 |
| (Increase) in exploration, evaluation and development costs | (1,155,391) | (319,409) | (722,695) | (263,637) |
| (Decrease)/increase in trade and other payables | (27,581) | 90,565 | (27,591) | 90,565 |
| Increase in employee entitlements | 4,030 | 10,430 | 4,030 | 10,430 |
| Net cash flow from operating activities | <u>(2,243,314)</u> | <u>(1,699,329)</u> | <u>(1,691,224)</u> | <u>(1,644,642)</u> |
| (b) Reconciliation of cash | | | | |
| Cash balance comprises: | | | | |
| - cash assets | 595,183 | 2,860,015 | 595,183 | 2,860,015 |
| Closing cash balance | <u>595,183</u> | <u>2,860,015</u> | <u>595,183</u> | <u>2,860,015</u> |

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 | 532,000 | 716,000 | 532,000 | 716,000 |
| later than one year and not later than five years | | | | |
| - other | 1,990,000 | 6,510,000 | 1,990,000 | 6,510,000 |
| later than five years | | | | |
| | <u>2,522,000</u> | <u>7,226,000</u> | <u>2,522,000</u> | <u>7,226,000</u> |

15. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee Benefits

The aggregate employee benefit liability is comprised of:

| | | | | |
|----------------------|---------------|---------------|---------------|---------------|
| Provisions (current) | 40,245 | 44,275 | 40,245 | 44,275 |
| | <u>40,245</u> | <u>44,275</u> | <u>40,245</u> | <u>44,275</u> |

Notes continued

30 JUNE 2006

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:

| | 2006 | | 2005 | |
|------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance at beginning of year | 15,350,000 | 0.14 | 12,275,000 | 0.15 |
| – granted | 9,500,000 | 0.09 | 4,475,000 | 0.14 |
| – expired | - | - | (1,400,000) | - |
| Balance at end of year | 24,850,000 | 0.12 | 15,350,000 | 0.14 |

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 2006:

| 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 |
| 9,500,000 | 29 Nov 05 | 28 Nov 10 | 0.925 |

16. SUBSEQUENT EVENTS

On 7 August 2006, the Company raised \$1.3 million by the issue of 25,000,000 ordinary fully paid shares at an issue price of \$0.0525 per share.

Notes continued

| 30 JUNE 2006 | Notes | CONSOLIDATED | | CHIEF ENTITY | |
|--------------|-------|--------------|------|--------------|------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |

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 | (1,573,807) | (1,563,222) | | |
| Adjustments: | | | | |
| Earnings used in calculating basic and diluted earnings per share | <u>(1,573,807)</u> | <u>(1,563,222)</u> | | |
| | Number of shares | Number of shares | | |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 319,651,321 | 171,865,788 | | |
| Effect of dilutive securities: | | | | |
| Share options | - | 15,350,000 | | |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | <u>319,651,321</u> | <u>187,215,788</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 | 23,100 | 20,000 | 13,100 | 20,000 |
| - other services in relation to the entity and any other entity in the consolidated entity | - | - | - | - |
| | <u>23,100</u> | <u>20,000</u> | <u>13,100</u> | <u>20,000</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.

Non-executive directors do not receive any termination or retirement benefits.

Notes continued

30 JUNE 2006

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 | | | | | | | | |
| 2006 | 46,250 | - | - | - | - | 34,669 | - | 80,919 |
| 2005 | 35,000 | - | - | - | - | 29,381 | - | 64,381 |
| Mr Andrejs (Andrew) Karlis Svalbe | | | | | | | | |
| 2006 | 149,198 | - | - | 74,841 | - | 104,006 | - | 328,045 |
| 2005 | 167,789 | - | - | 43,136 | - | 66,108 | - | 277,033 |
| Mr Peter Lawson Munachen | | | | | | | | |
| 2006 | 83,000 | - | - | - | - | 69,337 | - | 152,337 |
| 2005 | 75,499 | - | - | - | - | 44,072 | - | 119,571 |
| Mr Ian Raymond (Inky) Cornelius | | | | | | | | |
| 2006 | 35,000 | - | - | - | - | 34,669 | - | 69,669 |
| 2005 | 27,500 | - | - | - | - | 29,381 | - | 56,881 |
| Mr Roy Barry Rushworth | | | | | | | | |
| 2006 | 164,732 | - | - | - | - | 69,337 | - | 234,069 |
| Mr Lindsay Arthur Colless | | | | | | | | |
| 2006 | - | - | - | - | - | - | - | - |
| 2005 | - | - | - | - | - | - | - | - |
| Total Remuneration: Specified Directors | | | | | | | | |
| 2006 | 478,180 | - | - | 74,841 | - | 312,018 | - | 865,039 |
| 2005 | 305,788 | - | - | 43,136 | - | 168,942 | - | 517,866 |
| Specified Executives | | | | | | | | |
| Mr Mathew Arthur Battrick | | | | | | | | |
| 2006 | 160,551 | - | - | 14,450 | - | 46,225 | - | 221,226 |
| 2005 | 100,346 | - | - | 9,031 | - | 17,773 | - | 127,150 |
| Mr Ernest Anthony Myers | | | | | | | | |
| 2006 | - | - | - | - | - | 46,225 | - | 46,225 |
| 2005 | - | - | - | - | - | 31,387 | - | 31,387 |
| Total Remuneration: Specified Executives | | | | | | | | |
| 2006 | 160,551 | - | - | 14,450 | - | 92,500 | - | 267,451 |
| 2005 | 100,346 | - | - | 9,031 | - | 49,160 | - | 158,537 |

Notes continued

30 JUNE 2006

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 | | | | | | |
| Henry David Kennedy | 750,000 | 29 Nov 2005 | 0.05 | 0.925 | 28 May 2006 | 28 Nov 2010 |
| Andrejs (Andrew) Karlis Svalbe | 2,250,000 | 29 Nov 2005 | 0.05 | 0.925 | 28 May 2006 | 28 Nov 2010 |
| Peter Lawson Munachen | 1,500,000 | 29 Nov 2005 | 0.05 | 0.925 | 28 May 2006 | 28 Nov 2010 |
| Ian Raymond (Inky) Cornelius | 750,000 | 29 Nov 2005 | 0.05 | 0.925 | 28 May 2006 | 28 Nov 2010 |
| Roy Barry Rushworth | 1,500,000 | | | | | |
| Specified Executives | | | | | | |
| Mathew Arthur Battrick | 1,000,000 | 29 Nov 2005 | 0.05 | 0.925 | 28 May 2006 | 28 Nov 2010 |
| Ernest Anthony Myers | 1,000,000 | 29 Nov 2005 | 0.05 | 0.925 | 28 May 2006 | 28 Nov 2010 |
| Total | 8,750,000 | | | | | |

(d) Option holdings of specified directors and specified executives

| | Balance at beginning of period 1 July 2005 | Granted as Remuneration | Options Exercised | Net Change Other | Balance at end of period 30 June 2006 |
|--------------------------------|---|-------------------------|-------------------|------------------|--|
| Specified Directors | | | | | |
| Henry David Kennedy | 1,700,000 | 750,000 | - | - | 2,450,000 |
| Andrejs (Andrew) Karlis Svalbe | 3,975,000 | 2,250,000 | - | - | 6,225,000 |
| Peter Lawson Munachen | 2,450,000 | 1,500,000 | - | - | 3,950,000 |
| Ian Raymond (Inky) Cornelius | 1,700,000 | 750,000 | - | - | 2,450,000 |
| Roy Barry Rushworth | - | 1,500,000 | - | - | 1,500,000 |
| Mr Lindsay Arthur Colless | 200,000 | - | - | - | 200,000 |
| Specified Executives | | | | | |
| Mr Mathew Arthur Battrick | 500,000 | 1,000,000 | - | - | 1,500,000 |
| Mr Ernest Anthony Myers | 1,000,000 | 1,000,000 | - | - | 2,000,000 |
| Total | 11,525,000 | 8,750,000 | - | - | 20,275,000 |

Notes continued

30 JUNE 2006

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 2005 | | Balance 30 June 2006 | |
|--|------------------------|--|-------------------------|--|
| | Ord | | Ord | |
| Specified Directors | | | | |
| Henry David Kennedy | 26,855,164 | | 121,031,204 | |
| Andrejs (Andrew) Karlis Svalbe | 300,000 | | 375,000 | |
| Peter Lawson Munachen | 50,000 | | 62,500 | |
| Roy Barry Rushworth | - | | 28,080,687 | |
| Lindsay Arthur Colless | 1,332 | | 1,332 | |
| Total | 27,206,496 | | 149,550,723 | |
| Specified Executives | | | | |
| Mathew Arthur Battrick | - | | - | |
| 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 | |
|-----------------------------------|------------------------|------------|----------------------|------------|--|------------|---|-----------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ | 2006 % | 2005 % |
| <i>(i) Financial assets</i> | | | | | | | | |
| Cash | 595,183 | 2,860,015 | - | - | 595,183 | 2,860,015 | 2.8 | 3.6 |
| Trade and other receivables | - | - | 150,445 | 32,591 | 32,591 | 32,591 | - | - |
| Short term deposits | - | - | 5,875 | 5,875 | 5,875 | 5,875 | - | - |
| Total financial assets | 595,183 | 2,860,015 | 156,320 | 38,466 | 751,503 | 2,898,481 | | |
| <i>(ii) Financial liabilities</i> | | | | | | | | |
| Trade and other payables | - | - | 109,576 | 130,556 | 109,576 | 130,556 | - | - |
| Total financial liabilities | - | - | 109,576 | 130,556 | 109,576 | 130,556 | | |

(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 2006

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

- (a) During the year the company paid corporate and administration fees of \$83,000 (2005 -\$75,499) to Corraline Pty Ltd, a company of which Mr Munachen is a director. Refer note 19.
- (b) During the year the Company paid management and administration fees to Resource Services International (Aust) Pty 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 (Aust) Pty Limited was \$171,276. In the previous financial year an amount of \$148,140 was paid to Resource Services International Limited for corporate, management, accounting and administration services. Messrs Kennedy and Munachen are directors of that company.
- (c) 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 \$35,000 (2005 - \$27,500). Refer note 19.
- (d) 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 \$46,250 (2005 - \$35,000). Refer note 19.
- (e) The Company has effected Directors and Officers Liability Insurance.

23. EXPLANATION OF TRANSITION TO AIFRS

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The consolidated entity applied AASB 2 to its active share-based payment arrangements at 1 July 2005 except for equity-settled share-based payment arrangements granted before 7 November 2002. The consolidated entity has granted equity-settled share-based payments during the 2005 and 2006 financial years.

Under previous GAAP, the consolidated entity did not account for equity settled share based payments. Such payments are now recognised at fair value in accordance with AASB 2.

Adoption of AASB 2 is equity-neutral for equity-settled transactions. The expense recognised for the consumption of employee services received as consideration for share options granted will be deductible for tax purposes when the share options are exercised.

There was no effect in the Company from this change in accounting policy.

Notes continued

30 JUNE 2006

Reconciliation of equity
Consolidated

| | Previous GAAP | Effect of Transition To AIFRSs 1 July 2004 | AIFRSs | Previous GAAP | Effect of Transition To AIFRSs 30 June 2005 | AIFRSs |
|---|------------------|---|------------------|------------------|--|------------------|
| Assets | | | | | | |
| Cash | 1,732,671 | - | 1,732,671 | 2,860,015 | - | 2,860,015 |
| Trade and other receivables | 33,508 | - | 33,508 | 38,466 | - | 38,466 |
| Total Current Assets | 1,766,179 | - | 1,766,179 | 2,898,481 | - | 2,898,481 |
| Property, plant & equipment | 7,107 | - | 7,107 | 19,603 | - | 19,603 |
| Deferred exploration & evaluation costs | 842,924 | - | 842,924 | 1,152,362 | - | 1,152,362 |
| Total Non-Current Assets | 850,031 | - | 850,031 | 1,171,965 | - | 1,171,965 |
| Total Assets | 2,616,210 | - | 2,616,210 | 4,070,446 | - | 4,070,446 |
| Liabilities | | | | | | |
| Trade and other payables | 46,591 | - | 46,591 | 137,157 | - | 137,157 |
| Provisions | 29,815 | - | 29,815 | 40,245 | - | 40,245 |
| Total Current Liabilities | 76,406 | - | 76,406 | 177,402 | - | 177,402 |
| Net Assets | 2,539,804 | - | 2,539,804 | 3,893,044 | - | 3,893,044 |
| Equity | | | | | | |
| Issued capital | 11,255,665 | - | 11,255,665 | 14,097,974 | - | 14,097,974 |
| Reserves | - | - | - | - | 74,154 | 74,154 |
| Accumulated losses | (8,715,861) | - | (8,715,861) | (10,204,930) | (74,154) | (10,279,084) |
| Total Equity | 2,539,804 | - | 2,539,804 | 3,893,044 | - | 3,893,044 |

Chief Entity

| | Previous GAAP | Effect of Transition To AIFRSs 1 July 2004 | AIFRSs | Previous GAAP | Effect of Transition To AIFRSs 30 June 2005 | AIFRSs |
|---|------------------|---|------------------|------------------|--|------------------|
| Assets | | | | | | |
| Cash | 1,732,671 | - | 1,732,671 | 2,860,015 | - | 2,860,015 |
| Trade and other receivables | 33,508 | - | 33,508 | 38,466 | - | 38,466 |
| Total Current Assets | 1,766,179 | - | 1,766,179 | 2,898,481 | - | 2,898,481 |
| Property, plant & equipment | 7,107 | - | 7,107 | 19,603 | - | 19,603 |
| Deferred exploration & evaluation costs | 792,314 | - | 792,314 | 1,045,983 | - | 1,045,983 |
| Total Non-Current Assets | 799,421 | - | 799,421 | 1,065,586 | - | 1,065,586 |
| Total Assets | 2,565,600 | - | 2,565,600 | 3,964,067 | - | 3,964,067 |
| Liabilities | | | | | | |
| Trade and other payables | 46,591 | - | 46,591 | 137,156 | - | 137,156 |
| Provisions | 29,815 | - | 29,815 | 40,245 | - | 40,245 |
| Total Current Liabilities | 76,406 | - | 76,406 | 177,401 | - | 177,401 |
| Non-Current Liabilities | | | | | | |
| Amount due from controlled entity | 552,737 | - | 552,737 | 498,050 | - | 498,050 |
| Total Non-Current Liabilities | 552,737 | - | 552,737 | 498,050 | - | 498,050 |
| Total Liabilities | 629,143 | - | 629,143 | 675,451 | - | 675,451 |
| Net Assets | 1,936,457 | - | 1,936,457 | 3,288,616 | - | 3,288,616 |

Notes continued

30 JUNE 2006

| Equity | | | | | | |
|---------------------|------------------|----------|------------------|------------------|----------|------------------|
| Issued capital | 11,255,665 | - | 11,255,665 | 14,097,974 | - | 14,097,974 |
| Reserves | - | - | - | - | 74,154 | 74,154 |
| Accumulated losses | (9,319,208) | - | (9,319,208) | (10,809,358) | (74,154) | (10,883,512) |
| Total Equity | 1,936,457 | - | 1,936,457 | 3,288,616 | - | 3,288,616 |

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 2006 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 2006.

On behalf of the Board

Mr Andrejs (Andrew) Karlis Svalbe
Director

Perth 27 September 2006

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

Scope

The financial report comprises the income statement, statement of changes in equity, balance sheet, statement of cashflows accompanying notes, the disclosures made as required by AASB 124 *Related party disclosures* of the remuneration report in the Directors' report and the Directors' declaration for Pancontinental Oil & Gas NL the company and the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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. The Directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under AASB 1 *First-time adoption of Australian equivalents to IFRS*.

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, Australian Accounting Standards and other mandatory professional 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 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.

Whilst 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

1. 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 company's and consolidated entity's financial position as at 30 June 2006 and their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and
 - (b) other mandatory professional reporting requirements in Australia.
2. the remuneration disclosures in the Directors' Report comply with AASB 124

Rothsay

Mr Graham R Swan

Partner

Sydney

Date: 27 September 2006

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 2006.

(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 | 306 | 86,071 |
| 1,001 | - 5,000 | 146 | 460,832 |
| 5,001 | - 10,000 | 192 | 1,645,208 |
| 10,001 | - 100,000 | 946 | 41,827,988 |
| 100,001 | and over | 389 | 312,728,231 |
| | | 2,154 | 331,748,330 |
| The number of shareholders holding less than a marketable parcel of shares are: | | 528 | 1,058,710 |

(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 | 26.398 |
| 2 | ANZ Nominees Limited <Cash Income A/C> | 33,277,523 | 9.328 |
| 3 | Skye Grantees Limited | 23,026,040 | 6.454 |
| 4 | Mr Robert Albert Boas | 7,525,000 | 2.109 |
| 5 | Mr Roy Barry Rushworth | 5,054,647 | 1.416 |
| 6 | Suparell Pty Ltd <The Farrell Fam S F A/C> | 5,000,000 | 1.401 |
| 7 | Duketon Consolidated Limited | 4,844,815 | 1.358 |
| 8 | Alwyn Resources Limited | 4,035,014 | 1.131 |
| 9 | Westpac Custodian Nominees Limited | 3,275,000 | 0.918 |
| 10 | CIMB-GK Securities Pte Ltd <Client A/C> | 3,100,000 | 0.868 |
| 11 | Berne No 132 Nominees Pty Ltd <376804 A/C> | 2,810,000 | 0.787 |
| 12 | Greensea Investments Pty Ltd | 2,500,000 | 0.700 |
| 13 | RBC Dexia Investor Services Australia Nominees Pty Ltd <MLCI A/C> | 2,018,750 | 0.565 |
| 14 | Merrill Lynch (Australia) Nominees Pty Ltd | 1,965,681 | 0.550 |
| 15 | Rimic Constructions Pty Ltd | 1,950,000 | 0.546 |
| 16 | Forty Traders Limited | 1,875,000 | 0.525 |
| 17 | Mr Antonio Matteo, Mr Domenic and Mrs Angelina Mazzitelli <AAD A/C> | 1,800,000 | 0.504 |
| 18 | Hubbard and Churcher Trust Management Ltd | 1,690,326 | 0.473 |
| 19 | Ms Joanne Jolob | 1,550,000 | 0.434 |
| 20 | Key International Pty Ltd | 1,500,000 | 0.424 |
| | | 202,973,836 | 56.885 |

(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-312-P | 33.3% |
| | WA-340-P | 20% |
| | EP 110 | 25% |
| | EP 424 | 25% |
| Malta | Area 5 | 80% (reducing to 28% after one well) |
| | Block 3 of Area 4 | 80% (reducing to 28% after one well) |
| Kenya | L6 | 100% |
| | L8 | 100% |
| | L9 | 100% |
| Morocco | Mediterranee Est. Block** | 100% - diluting to 80% |

** Awaiting award of R/L.