

Pancontinental Oil & Gas NL

ABN 95 003 029 543

Annual Financial Report

for the year ended 30 June 2007

Corporate Information

ABN 95 003 029 543

Directors

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

General Manager

Mr Matthew Battrick

Company Secretary

Mr Ernest Anthony Myers

Registered Office

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Share Register

Advanced Share Registry Services
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Auditors

Rothsay

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ASX Code

PCL

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Directors' Report

30 June 2007

Your directors submit their report for the year ended 30 June 2007.

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, 71, 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, Alkane Exploration Ltd from 2000 to 2006 and Sub-Sahara Resources NL from 1996 to 2007. He is also a director of Norwest Energy NL (since 1994) and a listed overseas company and Australian company.

Mr Andrejs (Andrew) Karlis Svalbe BSc (Non-executive Director)

Mr Svalbe, 64, 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 Svalbe was Chief Executive Officer of the Company until he stepped down from that role on 6 July 2006. Mr Svalbe has continued on in the capacity of non-executive director.

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

Mr Munachen, 61, 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, 66, 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) and Montezuma Mining Company Limited (since 2006). He was Chairman of Alkane Exploration Ltd from 1986 until 31 July 2006 and has continued as a non-executive director of that company.

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

Mr Rushworth, 55, 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, 62 is a Chartered Accountant with many years experience in the mineral and petroleum exploration industries and was alternate for Messrs Cornelius and Munachen until his retirement on 18 May 2007.

Directors' Report continued

30 June 2007

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 has been company secretary of Pancontinental Oil & Gas NL since March 2004.

	Ordinary Shares	Options over Ordinary Shares
Mr Henry David Kennedy	137,582,222	3,000,000
Mr Andrejs (Andrew) Karlis Svalbe	437,500	7,875,000
Mr Peter Lawson Munachen	72,916	5,250,000
Mr Ian Raymond (Inky) Cornelius	-	3,000,000
Mr Roy Barry Rushworth	30,080,687	3,000,000
Mr Lindsay Arthur Colless	1,332	-
EARNINGS PER SHARE		Cents
Basic earnings (loss) per share		(0.60)
Diluted earnings (loss) per share		(0.60)

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 2007 (2006: two employees).

OPERATING AND FINANCIAL REVIEW

Review of Operations

During the year the consolidated entity was involved in seismic and airborne geophysical operations offshore Kenya. In Kenya Blocks L8 and L9, Origin Energy Kenya Proprietary Limited (ORG) completed its initial farm-in obligations by acquiring 3,700 km of 2D seismic data, costing over US\$4 million to earn 50%. Origin now has an option to increase its equity to 75% by drilling one well in each block.

In Kenya Block L6, Gippsland Offshore Petroleum Limited (GOP) completed its US\$1.9 million farm-in obligation by acquiring 1,240 km of 2D seismic data and 1,500 sq. km of airborne gravity gradiometer data to earn 60%.

A new Reconnaissance License was signed with the Government of Namibia in February 2007, with US\$250,000 of work committed in the 30,000 sq. km area over 2 years. Pancontinental holds this license 100%.

Technical studies continued on previously acquired 2D seismic data across the Baniyas Prospect in EP424, with Strike Oil as Operator.

Drilling operations planning was completed for the commencement of activities in EP104 to appraise the Point Torment gas discovery with the Stokes Bay-1 well and to test a deeper prospect target with the Valentine-1 well bore. Drilling operations subsequently commenced on August 13th.

Directors' Report continued

30 June 2007

Group Overview

Pancontinental Oil and Gas NL was incorporated in 1985 and listed on the Australian Securities 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 International and Australian acreage utilising the skills and experience of the existing operators.

Directors' Report continued

30 June 2007

Operating Results for the Year

Summarised operating results are as follows:

	2007	
	Revenues	Results
	\$	\$
Non-segment and unallocated revenues	34,456	(2,210,580)
Consolidated entity sales and profit from ordinary activities before income tax expense	34,456	(2,210,580)

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.

	2007	2006	2005	2004	2003
Basic earning per share (cents)	(0.6)	(0.5)	(0.9)	(0.05)	(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 \$3.8 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 \$3.8 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 2007

- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

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

In July 2007, the Company raised \$3.8 million by the issue of 63,538,587 ordinary fully paid shares at an issue price of \$0.06 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 32,500,000 unissued ordinary shares under options. Refer to note 14 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 RB Rushworth, 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 former Chief Executive Officer, Andrew Svalbe, received a fixed fee for his services as determined in accordance with external remuneration surveys. He did 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 2007

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 2007 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 2007

Table 1: Director remuneration for the year ended 30 June 2007

	Primary benefits		Post	Equity	Total	Value of options as proportion of Revenue
	Salary & Fees	Cash STI	Employment Superannuation	Options		
Mr Henry David Kennedy						
2007	50,000	-	-	45,981	95,981	48%
2006	46,250	-	-	34,669	80,919	43%
Mr Andrejs (Andrew) Karlis Svalbe						
2007	89,832	-	163,135	137,943	390,909	35%
2006	149,198	-	74,841	104,006	328,045	32%
Mr Peter Lawson Munachen						
2007	83,000	-	-	91,962	174,962	53%
2006	83,000	-	-	69,337	152,337	46%
Mr Ian Raymond (Inky) Cornelius						
2007	35,000	-	-	45,981	80,981	57%
2006	35,000	-	-	34,669	69,669	50%
Mr Roy Barry Rushworth						
2007	198,333	-	-	91,962	290,295	32%
2006	164,732	-	-	69,337	234,069	30%
Mr Lindsay Arthur Colless						
2007 (to 18 May 2007)	-	-	-	-	-	-
2006	-	-	-	-	-	-

Table 2: Remuneration of the named executives or officers who receive the highest remuneration for the year ended 30 June 2007

Mr Mathew Arthur Battrick						
2007	182,626	-	16,436	61,308	260,370	24%
2006	160,551	-	14,450	46,225	221,226	21%
Mr Ernest Anthony Myers						
2007	-	-	-	61,308	61,308	-
2006	-	-	-	46,225	46,225	-

Mr Myers received no direct remuneration from the Company but during the year the Company paid management and administration fees to Resource Services International (Aust) Pty Limited for the provision of corporate, management, accounting and administration services. Mr Myers is employed by Resource Services International (Aust) Pty Limited.

Table 3: Options granted as part of remuneration for the year ended 30 June 2007 (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 2007

Fair values of options:

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

	2007	2006	2005	2004	2003
Expected volatility	112%	77.9%	76.0%	50.0%	50.0%
Risk-free interest rate	5.75%	5.32%	5.1%	5.8%	4.0%
Expected life of option	5 years	5 years	5 years	5 years	5 years

Directors' Report continued

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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
9,250,000	29 Nov 06	28 May 07	0.06

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:	4	1
Number of meetings attended:		
Mr Henry David Kennedy	4	1
Mr Andrejs (Andrew) Karlis Svalbe	4	N/A
Mr Peter Lawson Munachen	4	N/A
Mr Ian Raymond (Inky) Cornelius	4	1
Mr Roy Barry Rushworth	4	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 11 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 2007

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 2007, 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 Frank Vrachas
Lead Auditor

28 September 2007

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 Peter Lawson Munachen
Director

Perth 28 September 2007

Corporate Governance Statement

30 JUNE 2007

STATEMENT

During the 2006/2007 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 2007

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 meets 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 2007

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	8 years	Andrejs Karlis Svalbe	9 years
Peter Lawson Munachen	16 years	Ian Raymond Cornelius	15 years
Roy Barry Rushworth	2 years		

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

Income Statements

YEAR ENDED 30 JUNE 2007	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
Revenue from Ordinary Activities					
Interest received – other corporations		34,456	51,691	34,456	51,691
Other		-	738	-	-
Total revenues from ordinary activities		34,456	52,429	34,456	51,691
Depreciation and amortisation expenses	2	10,083	(8,599)	10,083	(8,599)
Salaries and employee benefits expense		1,360,843	(556,396)	1,360,843	(556,396)
Audit fees		21,200	(13,100)	21,200	(13,100)
Exploration costs written off		324,682	(466,463)	322,667	(160,447)
Annual report costs		45,441	(32,223)	45,441	(32,223)
ASX fees		20,075	(17,872)	20,075	(17,872)
Administration, accounting and secretarial fees		206,514	(171,276)	206,514	(171,276)
Insurance		24,872	(74,279)	24,872	(74,279)
Legal fees		14,125	(15,977)	14,125	(15,977)
Share registry costs		9,939	(8,791)	9,939	(8,791)
Rent and outgoings		45,937	(55,817)	45,937	(55,817)
Travel		56,166	(25,284)	56,166	(25,284)
Other expenses from ordinary activities		105,159	(180,158)	104,947	(179,946)
LOSS BEFORE INCOME TAX EXPENSE		(2,210,580)	(1,573,807)	(2,208,353)	(1,268,317)
Income Tax Expense	3	-	-	-	-
NET LOSS	11	(2,210,580)	(1,573,807)	(2,208,353)	(1,268,317)
Basic earnings per share (cents per share)	16	(0.6)	(0.5)		
Diluted earnings per share (cents per share)		(0.6)	(0.5)		

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

Balance Sheets

AT 30 JUNE 2007		Notes	CONSOLIDATED		CHIEF ENTITY	
			2007	2006	2007	2006
			\$	\$	\$	\$
CURRENT ASSETS						
Cash assets			1,810,960	595,183	1,810,960	595,183
Trade and other receivables	4		160,109	156,320	160,109	156,320
TOTAL CURRENT ASSETS			1,971,069	751,503	1,971,069	751,503
NON-CURRENT ASSETS						
Property, plant and equipment	6		10,562	11,723	10,562	11,723
Deferred exploration, evaluation and development costs	7		11,718,442	11,591,984	1,559,893	1,488,311
Interests in subsidiaries	5		-	-	9,861,838	9,804,733
TOTAL NON-CURRENT ASSETS			11,729,004	11,603,707	11,432,293	11,304,767
TOTAL ASSETS			13,700,073	12,355,210	13,403,362	12,056,270
CURRENT LIABILITIES						
Trade and other payables	8		127,738	109,576	127,738	109,574
Provisions	9		38,748	44,275	38,748	44,275
Share application monies in advance	15		763,852	-	763,852	-
TOTAL CURRENT LIABILITIES			930,338	153,849	930,338	153,849
TOTAL LIABILITIES			930,338	153,851	930,338	153,849
NET ASSETS			12,769,735	12,201,359	12,473,024	11,902,421
EQUITY						
Parent entity interest						
Contributed equity	10		25,820,893	23,827,868	25,820,893	23,827,868
Reserves	11		1,012,313	226,382	1,012,313	226,382
Accumulated losses	11		(14,063,471)	(11,852,891)	(14,360,182)	(12,151,829)
Total parent entity interest in equity			12,769,735	12,201,359	12,473,024	11,902,421
TOTAL EQUITY			12,769,735	12,201,359	12,473,024	11,902,421

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

Statements of Changes in Equity

AT 30 JUNE 2007

	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
TOTAL EQUITY AT BEGINNING OF THE FINANCIAL YEAR		12,201,359	3,893,044	11,902,421	3,288,616
LOSS FOR THE YEAR		(2,210,580)	(1,573,807)	(2,208,353)	(1,268,317)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF PANCONTINENTAL OIL & GAS NL		(2,210,580)	(1,573,807)	(2,208,353)	(1,268,317)
Transactions with equity holders in their capacity as equity holders:					
Share issues		1,993,025	9,729,894	1,993,025	9,729,894
Directors and employee options		785,931	152,228	785,931	152,228
TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR		12,769,735	12,201,359	12,473,024	11,902,421

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 2007	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(1,115,495)	(1,140,352)	(1,115,282)	(1,020,220)
Interest received		34,456	51,691	34,456	51,691
Sundry income		-	738	-	-
Expenditure on exploration interests		(451,139)	(1,155,391)	(394,250)	(722,695)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	12(a)	(1,532,178)	(2,243,314)	(1,475,076)	(1,691,224)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(8,922)	(719)	(8,922)	(719)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(8,922)	(719)	(8,922)	(719)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		1,993,025	(20,799)	1,993,025	(20,799)
Proceeds of share application monies in advance		763,852	-	763,852	-
Repayments of borrowings - other		-	-	(57,102)	(552,090)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		2,756,877	(20,799)	2,699,775	(572,889)
NET INCREASE/(DECREASE) IN CASH HELD		1,215,777	(2,264,832)	1,215,777	(2,264,832)
Add opening cash brought forward		595,183	2,860,015	595,183	2,860,015
CLOSING CASH CARRIED FORWARD	12(b)	1,810,960	595,183	1,810,960	595,183

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 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report was authorised for issue by the Directors on 27 September 2007.

Statement of Compliance

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

Basis of preparation

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.

(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 2007

(e) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

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 2007

(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:	2007	2006
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 2007

(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 2007

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.

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

(ii) AASB-I 10 Interim Financial Reporting and Impairment

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Company has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Company's financial statements.

Notes continued

30 JUNE 2007	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$

2. EXPENSES AND LOSSES/(GAINS)

(a) Expenses

Depreciation of non-current assets					
Office furniture and equipment		10,083	8,599	10,083	8,599
Exploration, evaluation and development costs		324,682	466,463	322,667	160,447
Superannuation contributions		179,571	165,229	179,571	165,229

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	(663,174)	(472,142)	(662,506)	(380,495)
Tax effect of permanent differences				
Other items (net)	240,942	53,205	240,942	53,205
Amount not brought to account as a carried forward future income tax benefit	422,232	418,937	421,564	327,290
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	3,712,975	3,290,743	3,490,156	3,068,592
	3,712,975	3,290,743	3,490,156	3,068,592

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 2007	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$

4. RECEIVABLES (CURRENT)

Sundry receivables	154,234	133,668	154,234	133,668
Short-term deposits	5,875	5,875	5,875	5,875
	160,109	156,320	160,109	156,320

(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	
		2007	2006	2007	2006
		%	%	\$	\$
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	100	9,750,693	9,750,693
Loan to Afrex Limited				111,145	54,040
				9,861,838	9,804,733

Notes continued

30 JUNE 2007

	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
6. PROPERTY, PLANT AND EQUIPMENT					
Office equipment					
At cost		45,856	36,934	45,856	36,934
Less: Accumulated depreciation		(35,294)	(25,211)	(35,294)	(25,211)
Total written down amount		10,562	11,723	10,562	11,723
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		11,723	19,603	11,723	19,603
Additions		8,922	719	8,922	719
Depreciation expense		(10,083)	(8,599)	(10,083)	(8,599)
		10,562	11,723	10,562	11,723

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

Carrying amount at beginning	11,591,984	1,152,362	1,488,311	1,045,983
Expenditure during the year	451,140	10,906,085	394,249	602,775
Write offs	(324,682)	(466,463)	(322,667)	(160,447)
	11,718,442	11,591,984	1,559,893	1,488,311

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 2007	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
8. PAYABLES (CURRENT)					
Trade creditors		127,738	109,576	127,738	109,574
		127,738	109,576	127,738	109,574
9. PROVISIONS (CURRENT)					
Employee benefits	14	38,748	44,275	38,748	44,275
		38,748	44,275	38,748	44,275
10. CONTRIBUTED EQUITY					
(a) Issued and paid up capital					
Ordinary shares fully paid		25,820,893	23,827,868	25,820,893	23,827,868
		25,820,893	23,827,868	25,820,893	23,827,868
(b) Movements in shares on issue					
		2007		2006	
		Number of shares	\$	Number of shares	\$
Beginning of the financial year		331,748,330	23,827,868	209,098,101	14,097,974
Issued during the year					
– issued for acquisition		10,483,196	833,414	122,650,229	9,729,894
– public equity raising		39,000,000	1,159,611	-	-
End of the financial year		381,231,526	25,820,893	331,748,330	23,827,868
11. RESERVES AND ACCUMULATED LOSSES					
		2007	2006	2007	2006
Reserves		\$	\$	\$	\$
Beginning of the financial year		226,382	74,154	226,382	74,154
Directors and employee options issued		785,931	152,228	785,931	152,228
End of the financial year		1,012,313	226,382	1,012,313	226,382
Accumulated losses					
Beginning of the financial year		(11,852,891)	(10,279,084)	(12,151,829)	(10,883,512)
Net loss attributable to members of Pancontinental Oil & Gas NL		(2,210,580)	(1,573,807)	(2,208,353)	(1,268,317)
Total available for appropriation		(14,063,471)	(11,852,891)	(14,360,183)	(12,151,829)
End of the financial year		(14,063,471)	(11,852,891)	(14,360,183)	(12,151,829)

Notes continued

30 JUNE 2007

Notes

CONSOLIDATED

CHIEF ENTITY

2007

2006

2007

2006

\$

\$

\$

\$

12. STATEMENT OF CASH FLOWS

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

Net loss	(2,210,580)	(1,573,807)	(2,208,253)	(1,268,317)
Non-Cash Items				
Depreciation of non-current assets	10,083	8,599	10,083	8,599
Exploration expenditure written off	324,682	466,463	322,667	160,447
Options	785,931	152,228	785,931	152,228
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	(3,789)	2,065	(3,789)	2,065
(Increase) in exploration, evaluation and development costs	(451,139)	(1,155,391)	(394,351)	(722,695)
(Decrease)/increase in trade and other payables	18,161	(27,581)	18,163	(27,591)
Increase in employee entitlements	(5,527)	4,030	(5,527)	4,030
Net cash flow from operating activities	<u>(1,532,178)</u>	<u>(2,243,314)</u>	<u>(1,475,076)</u>	<u>(1,691,224)</u>
(b) Reconciliation of cash				
Cash balance comprises:				
– cash assets	1,810,960	595,183	1,810,960	595,183
Closing cash balance	<u>1,810,960</u>	<u>595,183</u>	<u>1,810,960</u>	<u>595,183</u>

13. EXPENDITURE COMMITMENTS

Capital expenditure commitments

Estimated capital expenditure contracted for at reporting date, but not provided for, payable:
not later than one year

– other	2,520,000	532,000	2,520,000	532,000
later than one year and not later than five years				
– other	55,000	1,990,000	55,000	1,990,000
later than five years				
	<u>2,575,000</u>	<u>2,522,000</u>	<u>2,575,000</u>	<u>2,522,000</u>

14. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee Benefits

The aggregate employee benefit liability is comprised of:

Provisions (current)	38,748	40,245	38,748	40,245
	<u>38,748</u>	<u>40,245</u>	<u>38,748</u>	<u>40,245</u>

Notes continued

30 JUNE 2007

14. 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:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	24,850,000	0.12	15,350,000	0.14
– granted	9,250,000	0.096	9,500,000	0.09
– expired	-	-	-	-
Balance at end of year	32,500,000	0.11	24,850,000	0.12

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 2007:

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	0.0925
9,250,000	29 Nov 06	28 Nov 11	0.096

15. SUBSEQUENT EVENTS

In July 2007, the Company raised \$3.8 million by the issue of 63,538,587 ordinary fully paid shares at an issue price of \$0.06 per share.

Notes continued

30 JUNE 2007	Notes	CONSOLIDATED		CHIEF ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$

16. EARNINGS PER SHARE

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

Net profit	(2,210,580)	(1,573,807)		
Adjustments:				
Earnings used in calculating basic and diluted earnings per share	<u>(2,210,580)</u>	<u>(1,573,807)</u>		
	Number of shares	Number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	364,201,283	319,651,321		
Effect of dilutive securities:				
Share options	-	-		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>364,201,283</u>	<u>319,651,321</u>		

17. 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	21,200	13,100	21,200	13,100
- other services in relation to the entity and any other entity in the consolidated entity	-	-	-	-
	<u>21,200</u>	<u>13,100</u>	<u>21,200</u>	<u>13,100</u>

18. 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 (resigned 18 May 2007)

(ii) Specified executives

Mr Matthew Arthur Battrick	General 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. The Chairman receives \$50,000 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 2007

18. 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								
2007	50,00	-	-	-	-	45,981	-	95,981
2006	46,250	-	-	-	-	34,669	-	80,919
Mr Andrejs (Andrew) Karlis Svalbe								
2007	89,832	-	-	163,135	-	137,943	-	390,909
2006	149,198	-	-	74,841	-	104,006	-	328,045
Mr Peter Lawson Munachen								
2007	83,000	-	-	-	-	91,962	-	174,962
2006	83,000	-	-	-	-	69,337	-	152,337
Mr Ian Raymond (Inky) Cornelius								
2007	35,000	-	-	-	-	45,981	-	80,981
2006	35,000	-	-	-	-	34,669	-	69,669
Mr Roy Barry Rushworth								
2007	198,333	-	-	-	-	91,962	-	290,295
2006	164,732	-	-	-	-	69,337	-	234,069
Mr Lindsay Arthur Colless								
2007	-	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-	-
Total Remuneration: Specified Directors								
2007	422,564	-	-	163,135	-	391,204	-	976,902
2006	478,180	-	-	74,841	-	312,018	-	865,039
Specified Executives & Officers								
Mr Mathew Arthur Battrick								
2007	182,626	-	-	16,436	-	61,308	-	260,370
2006	160,551	-	-	14,450	-	46,225	-	221,226
Mr Ernest Anthony Myers								
2007	-	-	-	-	-	61,308	-	61,308
2006	-	-	-	-	-	46,225	-	46,225
Mr Myers received no direct remuneration from the Company but during the year the Company paid management and administration fees to Resource Services International (Aust) Pty Limited for the provision of corporate, management, accounting and administration services. Mr Myers is employed by Resource Services International (Aust) Pty Limited.								
Total Remuneration: Specified Executives								
2007	182,626	-	-	16,436	-	122,616	-	321,678
2006	160,551	-	-	14,450	-	92,500	-	267,451

Notes continued

30 JUNE 2007

18. 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 2006	0.061	0.96	28 May 2007	28 Nov 2011
Andrejs (Andrew) Karlis Svalbe	2,250,000	29 Nov 2006	0.061	0.96	28 May 2007	28 Nov 2011
Peter Lawson Munachen	1,500,000	29 Nov 2006	0.061	0.96	28 May 2007	28 Nov 2011
Ian Raymond (Inky) Cornelius	750,000	29 Nov 2006	0.061	0.96	28 May 2007	28 Nov 2011
Roy Barry Rushworth	1,500,000	29 Nov 2006	0.061	0.96	28 May 2007	28 Nov 2011
Specified Executives						
Mathew Arthur Battrick	1,000,000	29 Nov 2006	0.061	0.96	28 May 2007	28 Nov 2011
Ernest Anthony Myers	1,000,000	29 Nov 2006	0.061	0.96	28 May 2007	28 Nov 2011
Total	8,750,000					

(d) Option holdings of specified directors and specified executives

	Balance at beginning of period 1 July 2006	Granted as Remuneration	Options Exercised/ (Expired)	Net Change Other	Balance at end of period 30 June 2007
Specified Directors					
Henry David Kennedy	2,450,000	750,000	(200,000)	-	3,000,000
Andrejs (Andrew) Karlis Svalbe	6,225,000	2,250,000	(600,000)	-	7,875,000
Peter Lawson Munachen	3,950,000	1,500,000	(200,000)	-	5,250,000
Ian Raymond (Inky) Cornelius	2,450,000	750,000	(200,000)	-	3,000,000
Roy Barry Rushworth	1,500,000	1,500,000	-	-	3,000,000
Mr Lindsay Arthur Colless	200,000	-	(200,000)	-	-
Specified Executives					
Mr Mathew Arthur Battrick	1,500,000	1,000,000	-	-	2,500,000
Mr Ernest Anthony Myers	2,000,000	1,000,000	-	-	3,000,000
Total	20,275,000	8,750,000	(1,400,000)	-	27,625,000

Notes continued

30 JUNE 2007

18. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

(e) Shareholdings of Specified Directors and Specified Executives

Shares held in Pancontinental Oil & Gas NL	Balance 1 July 2006 Ord	Acquisitions/(Disposals)	Balance 30 June 2007 Ord
Specified Directors			
Henry David Kennedy	121,031,204	16,551,018	137,582,222
Andrejs (Andrew) Karlis Svalbe	375,000	62,500	437,500
Peter Lawson Munachen	62,500	10,416	72,916
Roy Barry Rushworth	28,080,687	6,683,494	34,764,181
Lindsay Arthur Colless	1,332	-	1,332
Total	149,550,723	23,307,428	172,858,151
Specified Executives			
Mathew Arthur Battrick	-	-	-
Ernest Anthony Myers	-	-	-
Total	-	-	-

19. 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.

20. 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	
	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 %	2006 %
<i>(i) Financial assets</i>								
Cash	1,810,960	595,183	-	-	1,810,960	595,183	2.6	2.8
Trade and other receivables	-	-	154,234	150,445	154,234	150,445	-	-
Short term deposits	-	-	5,875	5,875	5,875	5,875	-	-
Total financial assets	1,810,960	595,183	160,109	156,320	1,971,069	751,503		
<i>(ii) Financial liabilities</i>								
Trade and other payables	-	-	127,737	109,576	127,737	109,576	-	-
Total financial liabilities	-	-	127,737	109,576	127,737	109,576		

(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 2007

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.

21. RELATED PARTY

- (a) During the year the company paid corporate and administration fees of \$83,000 (2006 -\$83,000) to Corraline Pty Ltd, a company of which Mr Munachen is a director. Refer note 18.
- (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 \$206,514 (2006 - \$171,276).
- (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 (2006 - \$35,000). Refer note 18.
- (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 \$50,000 (2006 - \$46,250). Refer note 18.
- (e) The Company has effected Directors and Officers Liability Insurance.

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 2007 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 2007.

On behalf of the Board

Mr Peter Lawson Munachen
Director

Perth 28 September 2007

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 2007. 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.

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 2007 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 Frank Vrachas

Partner

Sydney

Date: 28 September 2007

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 2007.

(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	302	83,960
1,001	- 5,000	139	426,888
5,001	- 10,000	216	1,853,720
10,001	- 100,000	927	41,159,985
100,001	and over	474	401,245,560
		2,058	444,770,113
The number of shareholders holding less than a marketable parcel of shares are:		521	1,049,061

(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	110,673,700	24.883
2	ANZ Nominees Limited <Cash Income A/C>	39,696,969	8.925
3	Skye Grantees Limited	25,706,511	5.780
4	Mr Robert Albert Boas	7,525,000	1.692
5	Mr Roy Barry Rushworth	6,402,748	1.440
6	Victoria House Finance Limited	5,300,000	1.192
7	Duketon Consolidated Limited	5,086,001	1.144
8	Alwyn Resources Limited	4,707,516	1.058
9	Kirke Securities Limited	4,000,000	0.899
10	Pacifique Asset Management Limited	3,800,000	0.854
11	CIMB-GK Securities Pte Ltd <Client A/C>	3,616,666	0.813
12	Mr Martinoi Minniti	3,350,903	0.753
13	Australian Heritage Group Pty Ltd <New Capital Fund A/C>	2,833,333	0.637
14	Mr Roy Barry Rushworth	2,654,922	0.597
15	Rimic Constructions Pty Ltd	2,391,666	0.538
16	RBC Dexia Investor Services Australia Nominees Pty Ltd <MLCI A/C>	2,352,083	0.529
17	Colt Nominees Pty Ltd <Richard Coakley S/Fund A/C>	2,333,333	0.525
18	Gerard Walsh	2,312,664	0.520
19	Tao Yuan Limited <No 3 A/C>	2,266,666	0.510
20	Forty Traders Limited	2,187,500	0.492
		239,198,181	53.780

(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	142,694,792
Roy Barry Rushworth and Skye Grantees Limited as trustee for the Mulberry Trust	34,764,181

(e) Permit Schedule

Permits and Licence Interests	Permit reference	Interest
Petroleum prospects		
Western Australia	EP 104 (R4)	10.0 %
	EP 406	5%
	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	40%
	L8	50%
	L9	50%
Namibia	RL 1 of 2007	100%
Morocco	Mediterranee Est. Block**	100% - diluting to 80%

** Awaiting award of R/L.