PANCONTINENTAL OIL & GAS NL – ANNUAL REPORT 2012

PANCONTINENTAL

Contents

Chairman's Review

I am very pleased to report on a significant year for Pancontinental Oil and Gas NL.

The Company is being increasingly recognised globally for its efforts in Africa, particularly in our East African projects in Kenya and also in Namibia. Both regions have become international focuses for oil and gas exploration, and Pancontinental is one of the very few juniors active in these outstanding regions.

In a significant achievement during the 2011 / 2012 year, Pancontinental raised $65 million (before costs) through equity issues to fund its African exploration campaigns. The two fundraisings were subscribed by some of world's largest international investment funds, a considerable vote of confidence for our Company's direction, strategy, management and asset portfolio.

Turning to our projects, the East African margin continues to host major gas discoveries offshore Mozambique and southern Tanzania. Pancontinental is exploring in the northern part of the East African margin, and here we have four exploration areas offshore Kenya.

The Company, after some years of planning, has made a gas discovery in its Mbawa 1 well offshore Kenya, drilled by our operator Apache Corporation over August and September this year. This is the first ever discovery offshore Kenya and the first discovery of any kind in the northern part of the East African offshore margin. This ground breaking discovery continues to be evaluated and, whatever the outcome of the evaluation, Pancontinental has succeeded proving a working hydrocarbon system, opening the door for much greater exploration opportunities offshore Kenya. Notably, it was Pancontinental that originated this project some years ago.

The gas discovery at Mbawa does not mean that oil will not be found offshore Kenya, and we continue to direct our efforts towards the oil in this region.

In virtually all frontier areas, the first discovery paves the way for much better informed, and often more successful, future exploration. The numerous very large prospects and the diversity of play types, in our Kenyan licences comprise, a multi-layered series of opportunities in a geological as well as strategic sense, and we are confident that these will grow and mature as exploration continues.

High quality 3D seismic has become a key to finding hydrocarbons, and in our Kenyan areas, we participated in three new surveys during the year and have another survey planned for November this year. This gives some indication of the enthusiasm of our joint ventures for exploration offshore Kenya.

Pancontinental's other main African focus region is offshore Namibia. Our work here, in the 0037 licence, has succeeded in identifying a significant number of ponded turbidites, basin floor fans and slope and basin floor channel features. Some of these are extremely large. We continue to believe that our concept of exploring in the so called "Inner Graben" in the Walvis Basin holds true and we maintain our support for the concept that this is where oil is most likely to be found.

Throughout the 2011 / 2012 year Pancontinental has continued to assess a number of acquisition opportunities, primarily African focussed, with the aim of significantly growing our oil and gas portfolio. During the year, the Company had opportunity to increase its interest from 85% to 95% in the very large Namibian EL 0037 licence area (c.17,000 sq km) by acquiring an extra 10% from our co-venturer Paragon Holdings. In its own right and measured against other acquisitions offshore Namibia we believe that the acquisition allowed Pancontinental to capture significant value.

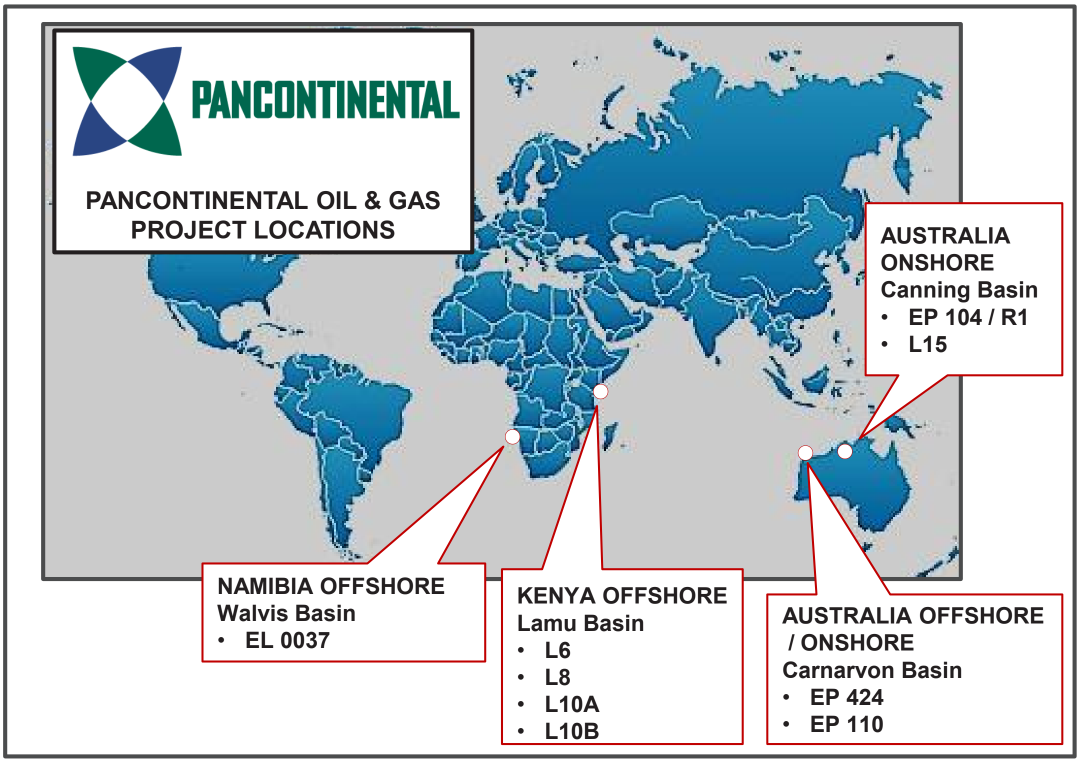
Considerable interest has been shown in EL 0037 by other companies exploring regionally and, although we intend to maintain a significant stake in EL 0037, we are considering a farm out that will enhance and accelerate the work programme.

Two wells have been drilled by others offshore Namibia so far this year. Neither were discoveries, however the geology is now becoming much better known and we expect better success from a minimum of four more wells to be drilled over the coming months offshore Namibia.

Pancontinental holds a unique position in two of the newest oil and gas frontiers globally [Kenya and Namibia], where both regions are on the cusp of game-changing drilling programmes. With approximately $48 million in cash at year end, Pancontinental is well funded for an exciting 12-18 months ahead.

H.D. Kennedy

Review of Operations



LICENCE	Area (km^2)	PCL Interest (%)	Operator (%)	Co- Venturers (%)
Kenya L6	3,100	40.0%	FAR (60%)	FAR (60%)
Kenya L8	5,115	15.0%*	Apache (50%)	Apache (50%) Origin Energy (20%), Tullow (15%)
Kenya L10A	4,962	15.0%	BG Group (40%)	BG (40%) PTTEP (25%), Premier (20%)
Kenya L10B	5,585	15.0%	BG Group (45%)	BG (45%) PTTEP (15%), Premier (25%)
Namibia EL0037	17,295	95.0%	Pancontinental (95%)	Paragon Holdings (5%)
EP 424 (Australia)	79	38.5%	Strike Oil (61.5%)	Strike Oil (61.5%)
EP 110 (Australia)	750	38.5%	Strike Oil (61.5%)	Strike Oil (61.5%)
EP 104 / R1 (Australia)	736	10.0%	Buru Energy (38.95%)	Buru Energy (38.95%) Emerald Gas (12.75%), Gulliver (14.8%), Phoenix Resources (10%), FAR (8%), Indigo Oil (5.5%)
L15 (Australia)	150	12.0%	Buru Energy (15.5%)	Buru Energy (15.5%) Gulliver (49%), FAR (12%), Indigo Oil (11.5%)

Review of Operations

Highlights

Kenya L8 –The first ever discovery offshore Kenya made by the Mbawa 1 well, in September 2012, proving a working hydrocarbon system and establishing a gas accumulation.

Nanaa 3D survey completed early 2012.

Kenya L10A & L10B – 3D and 2D seismic surveys identify multiple prospects.
An additional 3D survey is planned for November 2012.

Kenya L6- Kifaru 3D survey completed over Kifaru and Tembo Prospects.

Namibia EL 0037 – Pancontinental increased its interest in EL 0037 to 95%.
Multiple leads identified from mapping.

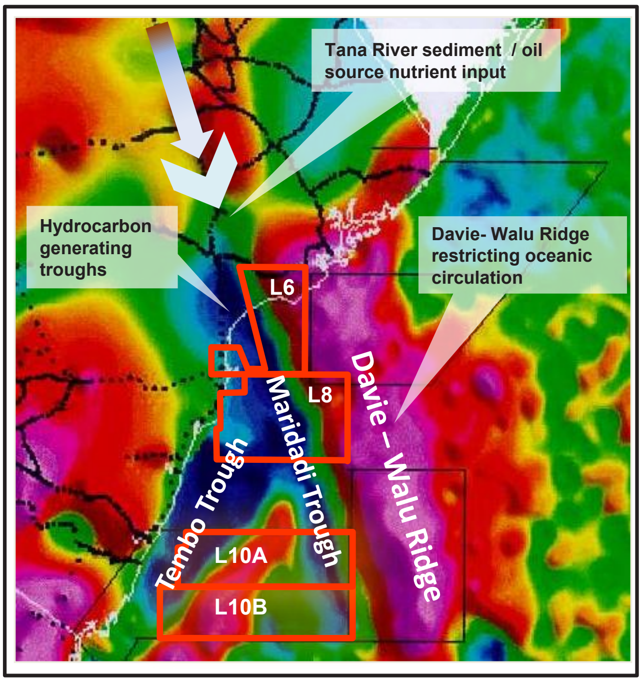
Corporate - The Company raised approximately $65 million dollars (before costs) to further its exploration activities.

Pancontinental continues to assess a number of acquisition opportunities, with a primary African focus.

INTERNATIONAL

KENYA
Pancontinental's Strategy Offshore Kenya
Kenya's stable legal and fiscal regimes and Pancontinental's strong acreage position place the company very favourably in the East African region.

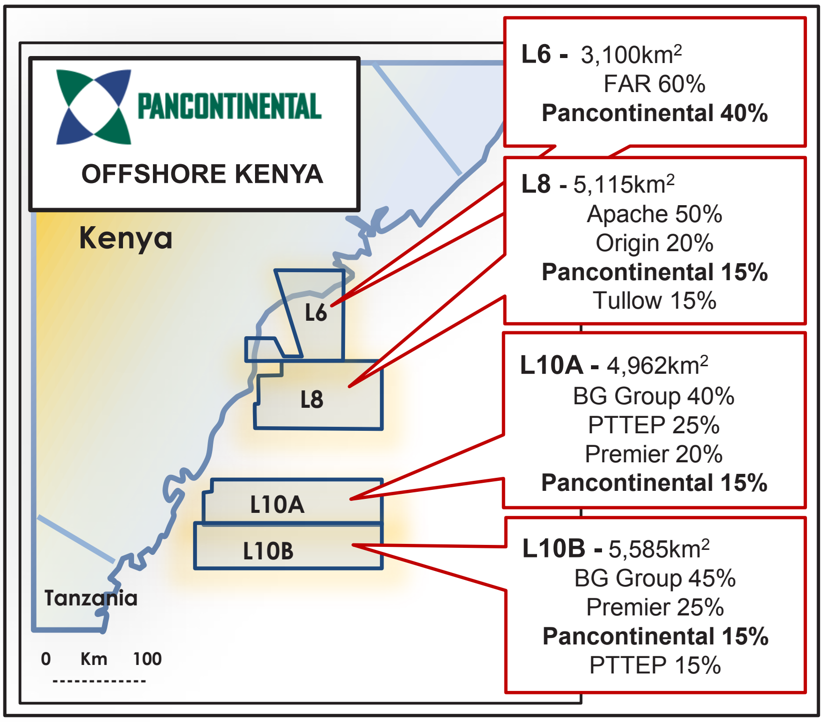
Offshore East Africa has become an industry exploration focus through recent major deepwater gas discoveries and an oil discovery offshore Tanzania and Mozambique.



Pancontinental originally proposed that the prime areas to develop good oil source rocks, and to have these fully mature to generate oil, is the restricted environment where the Tana River delta carried sediments and nutrients into the deep troughs inboard of the Davie Walu Ridge.

Pancontinental has identified a major oil and gas play offshore Kenya and has acquired four licence areas. Exploration in this region is increasing, and it has become a major focus after the Mbawa gas discovery in September 2012 (Pancontinental 15%).

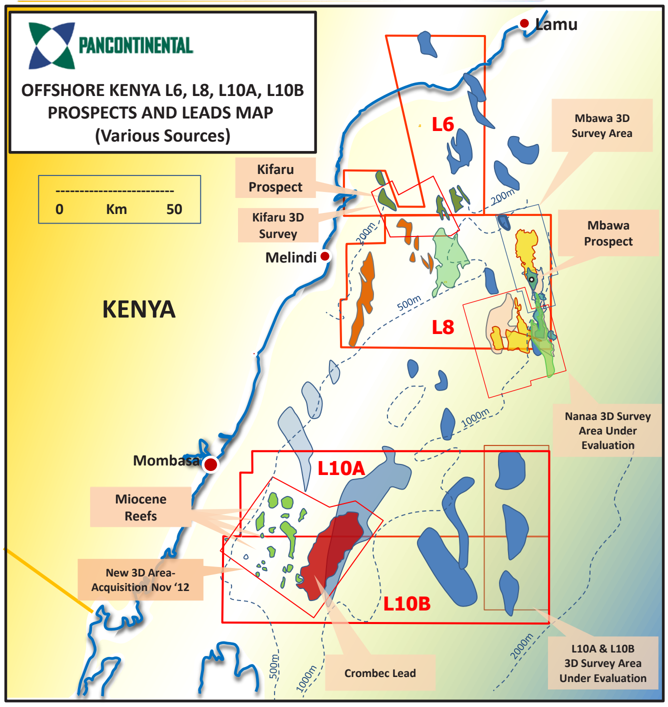
Review of Operations



South of Kenya, offshore northern Mozambique and southern Tanzania, drilling continues unabated after a succession of major gas discoveries and further drilling is also planned offshore Kenya by Pancontinental and its co-venturers, as well as by Anadarko and Total in deeper water over the coming year.

With the 2011 awards of the L10A and L10B licences, Pancontinental has extended its strategy of exploring for oil to the south of the L8 and L6 blocks. The new blocks cover the same deep Tertiary troughs that the company interprets to be oil-generating in L8 and L6.

Pancontinental has participated in four 3D surveys offshore Kenyan and these have generated numerous Prospects and Leads. Another 3D survey is planned in the L10 Blocks in November 2012.



The Mbawa Prospect is one of a number of prospects at different geological levels in the L8 area and the first to be drilled out of numerous prospects and leads in Pancontinental's four licence areas offshore Kenya.

The Mbawa gas discovery establishes the existence of a working hydrocarbon system offshore Kenya. The source material of the gas is interpreted to be a thermally mature mixed gas and oil- prone source and this means that oil may also have been generated at some time from the same source rock. With the Mbawa 1 gas discovery and the proving of a working hydrocarbon system, Pancontinental believes that the next 12-18 months will be a defining period of exploration offshore Kenya.

The opportunity to discover oil has by no means been dispelled by finding gas at Mbawa. Trace fluorescence seen in Mbawa may be a significant clue and it is being closely examined.

Pancontinental is well funded for exposure to up to 4 offshore Kenyan wells directly (1 well depends on the completion of farmout in Block L6) and up to 4 wells offshore Kenya indirectly (wells by other companies) over the coming 12-18 months.

Pancontinental believes that we have seen only the beginning of what will become a wave of discoveries offshore Kenya.

KENYA
Block L8, offshore Lamu Basin
Pancontinental 15%

L8 covers 5,114.9 sq km offshore Kenya in the Lamu Basin in water depths from 100m to 1,300 m. Pancontinental and its co-venturer (and subsequent merger partner) Afrex Ltd originated the L8 and L6 projects.

L8 holds the semi-regional Mbawa Prospect, a gas discovery in September 2012.

Pancontinental farmed out an interest in L8 to Origin in 2005, with Origin fully funding a 2D seismic survey and a 3D seismic survey over the Mbawa Prospect. Pancontinental retained a 25% interest following the 3D survey and has now farmed-down to Tullow and retained a 15% interest through Mbawa drilling. Tullow has an option to earn another 5% from Pancontinental.

In L8, the largest of several very substantial exploration objectives is the Mbawa Prospect, an anticlinal structure mapped using the 3D seismic data. Mbawa shows superposed "flat spots" or "DHI's" on both 2D and 3D seismic data and has interpreted sea- floor oil seepages from its northern flank.

Review of Operations

The interpreted extensive deep oil and gas generating "kitchen" near the Mbawa Prospect extends to the north into area L6 and south into L10A and L10B.

After Mbawa, the next largest prospect is Nanaa Central with approximately 40% of Mbawa's volumetric potential. Other major Prospects include the Tai Prospect.

Mbawa Discovery

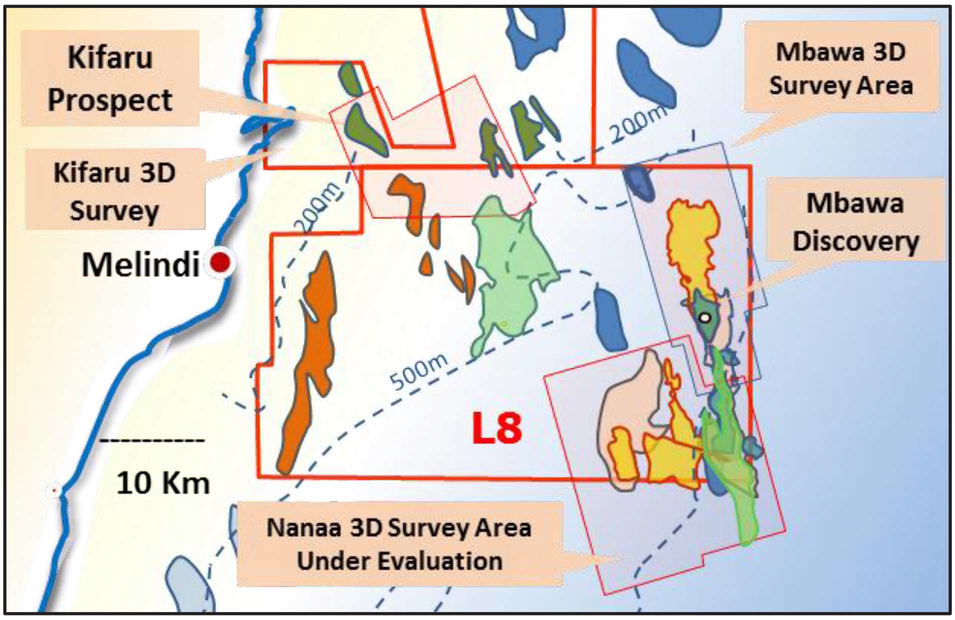
The Mbawa Prospect is one of a number of prospects in the L8 licence area and the first to be drilled out of numerous prospects and leads in Pancontinental's four licence areas offshore Kenya.

The Mbawa 1 exploration well was spudded by the drillship Deep Sea Metro 1 on 10 August 2012 and drilled to a TD of 3,150m MD. This is the first well on the large Mbawa Prospect in area L8 offshore Kenya (Apache Corporation 50%, Origin Energy 20%, Pancontinental 15%, Tullow Oil 15%). The well was plugged and abandoned according to the drilling programme and has been left in a state that allows re-entry at a later date.

Operator Apache Corporation ("Apache") completed well operations in 47 days, being 13 days ahead of schedule.

Mbawa 1 is the first ever Natural Gas discovery and the first ever hydrocarbon (oil or gas) discovery offshore Kenya. The well proves the existence of a working hydrocarbon system that, in the case of the Mbawa gas, is interpreted to be derived from a mature Type II (gas / oil) source. Traces of dull fluorescence remain to be analysed and interpreted.

Mbawa 1 is a substantive gas discovery; however the volume of gas discovered and the follow-up potential remain to be determined by ongoing work.



Preliminary interpretation of the Mbawa 1 results has been provided to the L8 joint venture by the operator Apache. Further analysis of the rock and fluid samples and other technical data will continue into 2013.

Mbawa 1 tested a 31 sq km (7,800 acre) faulted four- way dip closure. The closure comprises the southern end of the larger north-south trending four-way closed sub-regional Mbawa Prospect of 160 sq km (40,000 acre). The primary target was the Upper Cretaceous turbidite sandstones. Secondary objectives were Eocene and Middle Cretaceous turbidite reservoirs.

At the primary target level, 51.8 net metres (~170 feet) of natural gas pay were encountered in three zones of Upper Cretaceous channel and turbidite sandstones. Porosities were very favourable at an average of approximately 24%. The discovery was on a single localised structural culmination on the southern extremity of the overall Mbawa Prospect and the potential of the remainder of the structure remains to be assessed in the light of the Mbawa results.

The well was designed to optimally test the shallower Upper Cretaceous discovery target, however it was not possible to also optimally test the deeper secondary Middle Cretaceous target. The deeper target remains to be properly tested and Pancontinental believes that this, as well as other prospects of this play type, and the Mbawa discovery play type itself still hold considerable potential in the Mbawa vicinity, elsewhere in the L8 area and regionally.

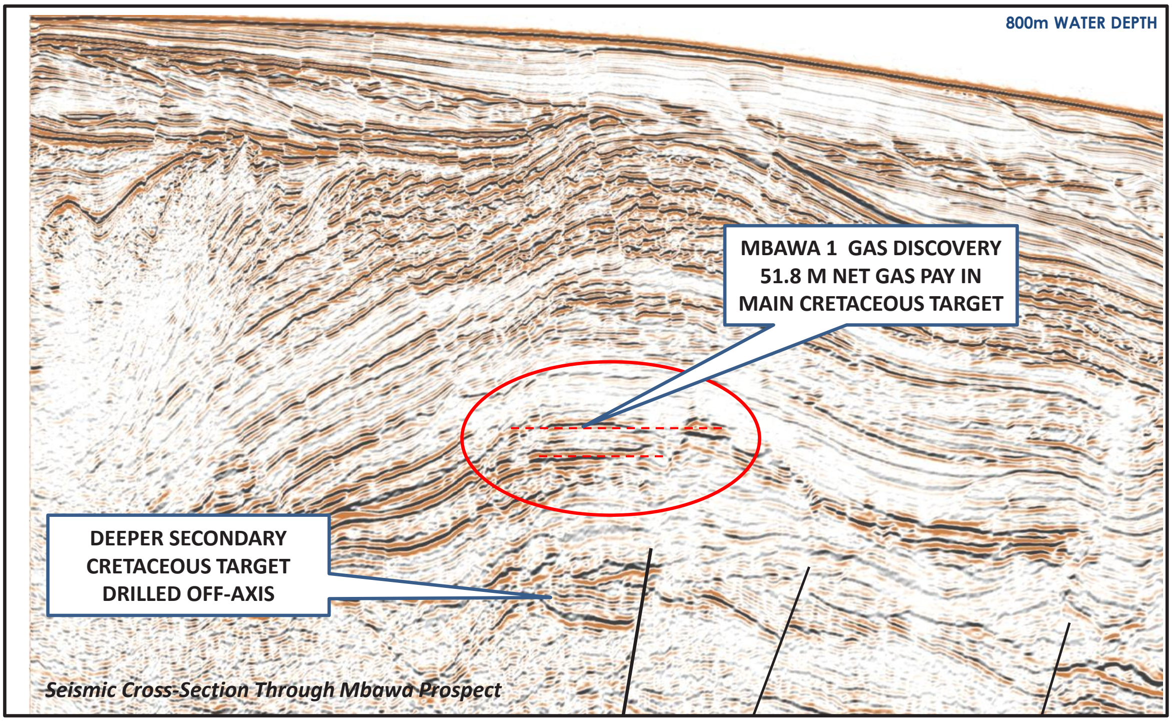
Fluid samples, pressure measurements, electronic logs and sidewalls cores were taken while drilling and these continue to be analysed and interpreted.

The size of the gas discovery continues to be evaluated, as well as the follow - up potential in other culminations on the Mbawa structure, the potential in nearby structures and the commercial potential (if any) of the overall structure at the depth discovery.

The significance of traces of dull fluorescence seen while drilling will be further interpreted once samples have been fully analysed.

Gas recovered from the discovery zone is interpreted to be thermogenic and derived from a possible Type II mixed gas / oil source rock. The extent and age of this source rock is subject to further analysis. Pancontinental believes that this very encouraging finding means that the potential for oil discoveries remains open and there may also be further extensive gas resources both locally and regionally.

This first ever discovery in Mbawa has reversed the earlier perception created by the results of the Pombo 1 well drilled by Woodside Energy in 2007 that there was no source rock offshore Kenya. It has substantially increased the attractiveness of all of Pancontinental's Kenyan acreage and further de-risked its Kenyan prospects and leads.



Seismic Cross-Section Through Mbawa Prospect

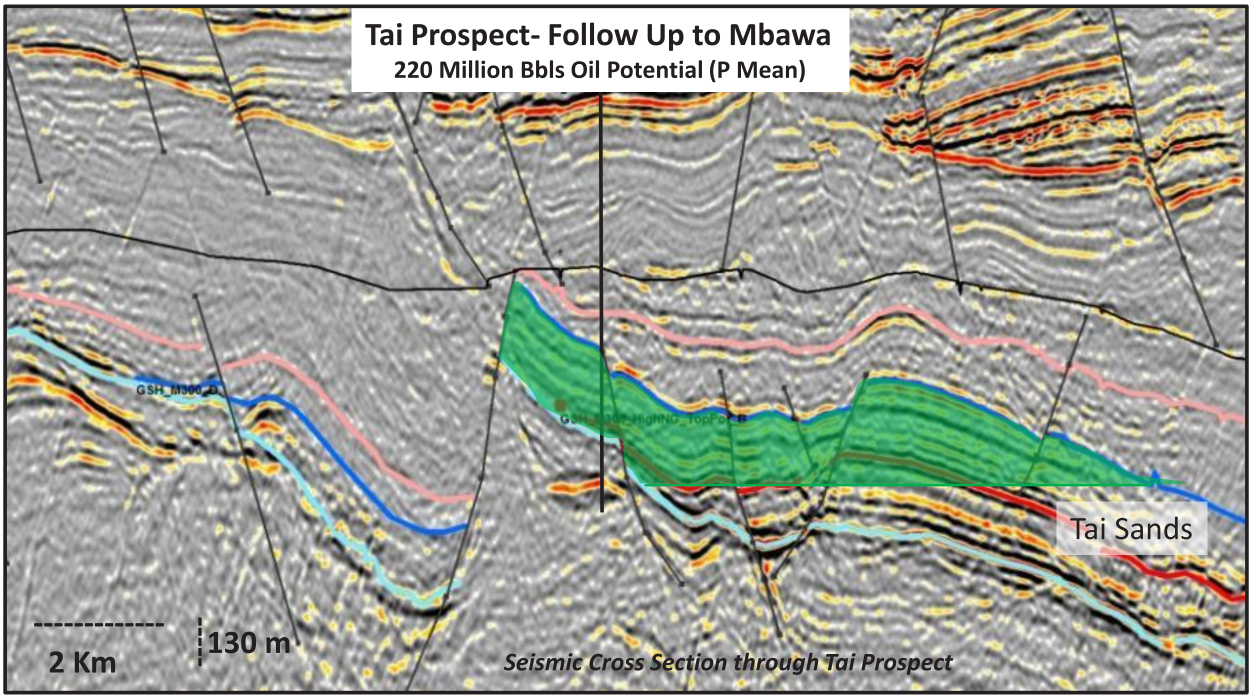
The Mbawa 1 exploration well has proven a working hydrocarbon system offshore Kenya in the Cretaceous; this has opened a new hydrocarbon region offshore East Africa.

L8 - Forward Exploration Programme

The large amount of technical data gathered during Mbawa drilling is now being processed and assessed. It will be integrated into previous exploration models.

The L8 Joint Venture is currently considering a second well in 2013, however a firm decision to drill the well, the play type, prospect and location have yet to be fully determined. Although no firm decision to drill a second well has been made, the Mbawa 3D seismic survey and the more recent Nanaa 3D survey areas are currently the prime areas of consideration.

The Tai Prospect is one of the main prospects under consideration. The Tai Sands of interpreted Middle Cretaceous age are deeper than the sands at the discovery level in Mbawa 1 and are considered to potentially be in a separate petroleum system.



Nanaa 3D Seismic Completed

Pancontinental announced the completion of the Nanaa 3D seismic survey in L8 offshore Kenya in March 2012. The survey is in addition and immediately adjacent to the earlier Mbawa 3D survey.

The survey covers approximately 1,400 sq km over the large Nanaa and Kozi Leads at levels from the Tertiary to the Jurassic as well as covering the large Bundi and Tai Prospects in the Cretaceous to the Upper Jurassic in the southeast of L8. Data processing and interpretation are expected to be completed by the end of 2012. Mbawa and the newly covered leads are interpreted to be located in optimal positions to trap oil and gas generated in the basin.

Pancontinental has been be free-carried through the Nanaa 3D by farminee Tullow Kenya B.V. a wholly owned subsidiary of Tullow Oil plc.

The new 3D seismic and the enthusiasm of the joint venture in accelerating exploration in L8 supports Pancontinental's long-held view of the very positive petroleum prospectivity of this region offshore Kenya.

When fully processed and interpreted, the new Nanaa 3D survey should add considerable volumetric potential to the L8 inventory of hydrocarbon prospects and leads and, in the event of success on Mbawa, Pancontinental expects to have a substantial ready-made inventory of follow-up opportunities for drilling.

KENYA
Blocks L10A & L10B, Offshore Lamu Basin
Pancontinental 15%

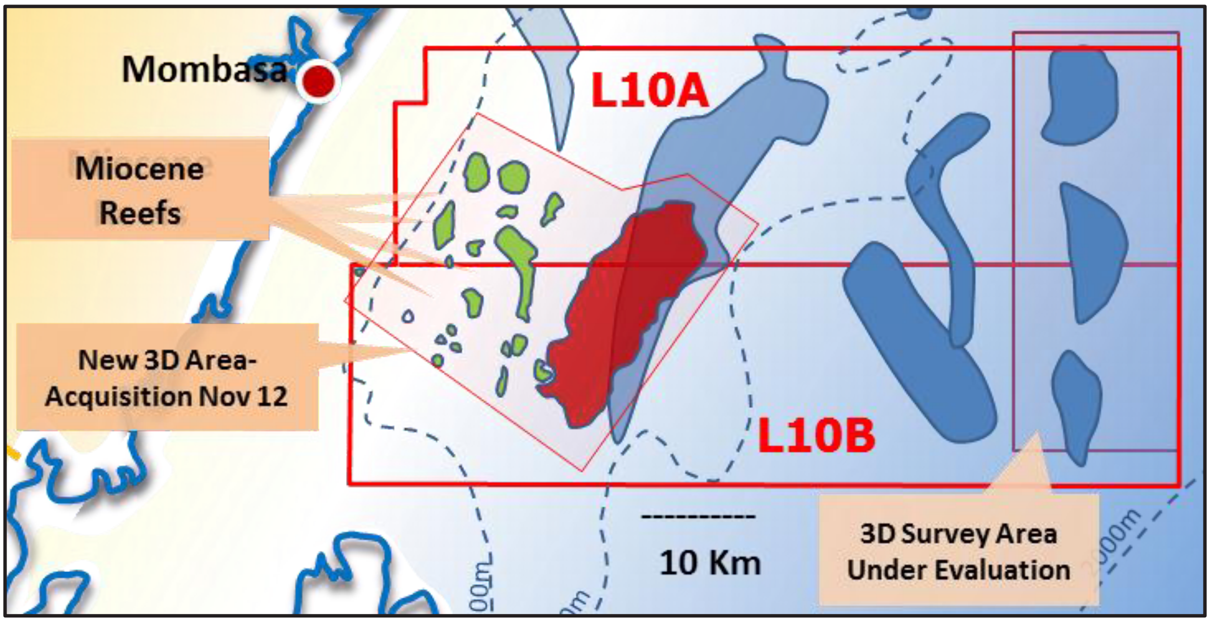
Pancontinental joined the UK major BG Group and other UK companies Premier Holdings and Cove Energy in the award of two new Production Sharing Contracts ("PSCs") over Blocks L10A and L10B in 2011.

The new areas more than doubled Pancontinental's gross acreage position offshore Kenya.

With BG as operator, the Joint Venture has commenced an aggressive "fast track" exploration programme leading to drilling in this highly promising exploration province. Pancontinental is commencing exploration activities alongside several of the most successful UK-based companies in the oil and gas sector.

The L10A and L10B Blocks have respective areas of 4,962.03 sq km and 5,585.35 sq km and water depths of 200 to 1,900m, which is easily within the reach of modern drilling and development technology.

Review of Operations



An initial review by operator BG Group identified more than ten strong "leads" for follow-up by 3D and 2D seismic surveys. The leads are geologically varied, with six "play types" identified.

Since the identification of the initial leads, 3D and 2D seismic surveys have been acquired in late 2011/early 2012 and one well is planned in each block before mid-2014. The 3D and 2D mapping has identified a number of high priority prospects.

A further 3D survey is planned in November 2012 over an extensive Miocene Reef cluster and other key leads. The Joint Venture is working towards commencing drilling operations in 2013.

3D and 2D Seismic Surveys- 2011/ 2012
The 3D survey of approximately 2,200 sq km covered 6 leads in the eastern part of the L10 Blocks, while the 2D survey of 970 linear km covered other leads, including a Miocene reef trend in the western part of the Blocks. The aim of the surveys is to identify the most prospective prospects for drilling. Two wells are required under the licences in the second exploration period commencing in August 2013.

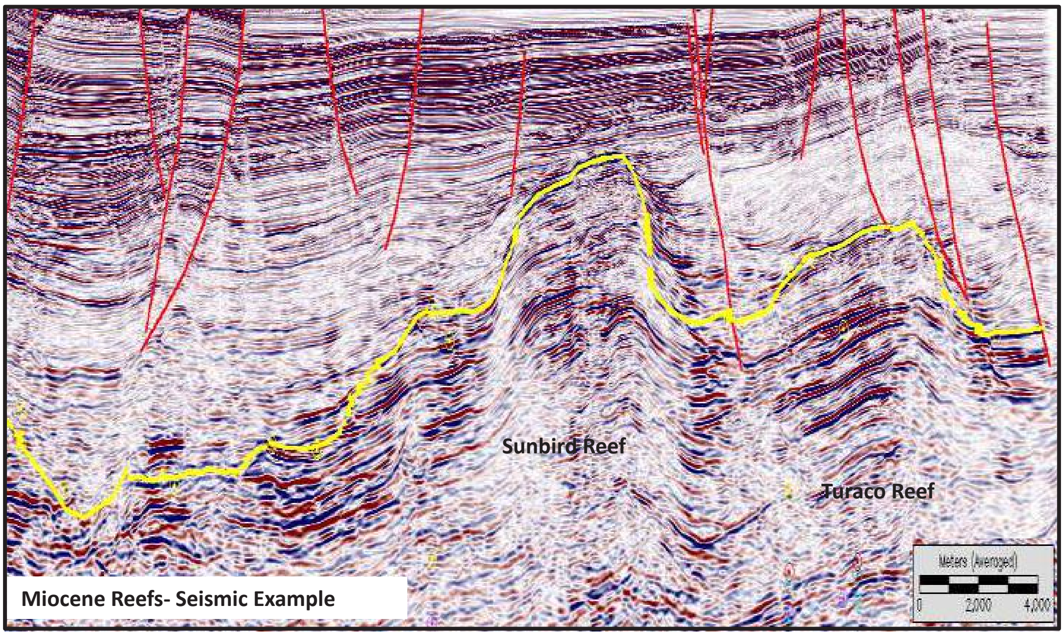
Several of the leads have a similar character and are on-trend south of the giant Mbawa Prospect in L8 (Pancontinental 15%). These leads are large anticlinal features.

A number of other leads have potential in different parts of the geological section, including a large Upper Jurassic "reef", Cretaceous and Tertiary channel and turbidite sands and Miocene reefs.

New 3D Survey to Commence November 2012
Following the promising initial results of the 2D and 3D seismic surveys completed in early 2012, the L10A and L10B joint venture plans to carry out a new 3D survey of 2,280 sq km in the western portion of the licence areas.

The new 3D survey will cover a cluster of large Miocene reefs and the large Crombec Lead.

Review of Operations



These leads are possible drilling targets and the joint venture has scheduled the new 3D survey to start as soon as possible, allowing for any equipment or planning constraints.

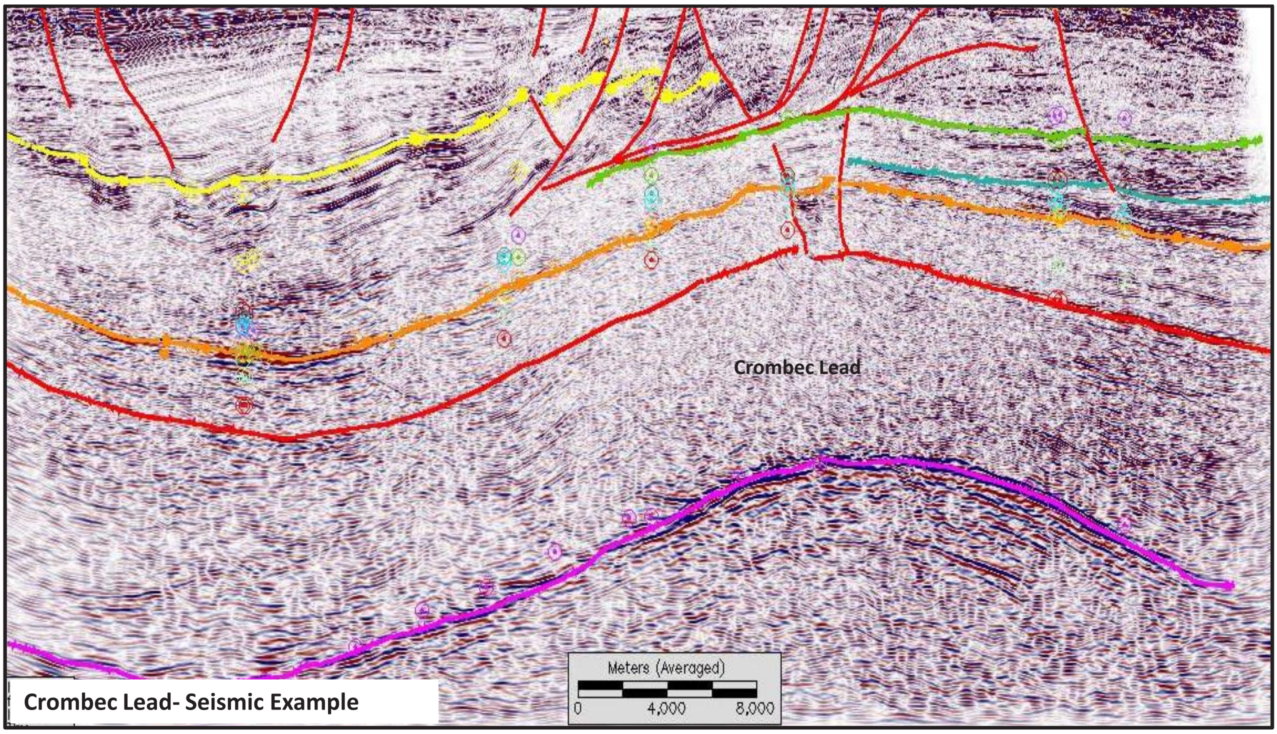
The new 3D survey is planned to commence in November 2012 and full interpreted results are expected Q2 2013.

Processing and interpretation of the 2D and 3D data acquired late in 2011 and early in 2012 is ongoing and preliminary results are very encouraging.

Current Mapping - Western Area 2D
The L10A and L10B operator BG Group has mapped a number of leads for further work and possible drilling. These will be covered by the new 3D survey. The largest leads to be targeted by the new 3D survey are –

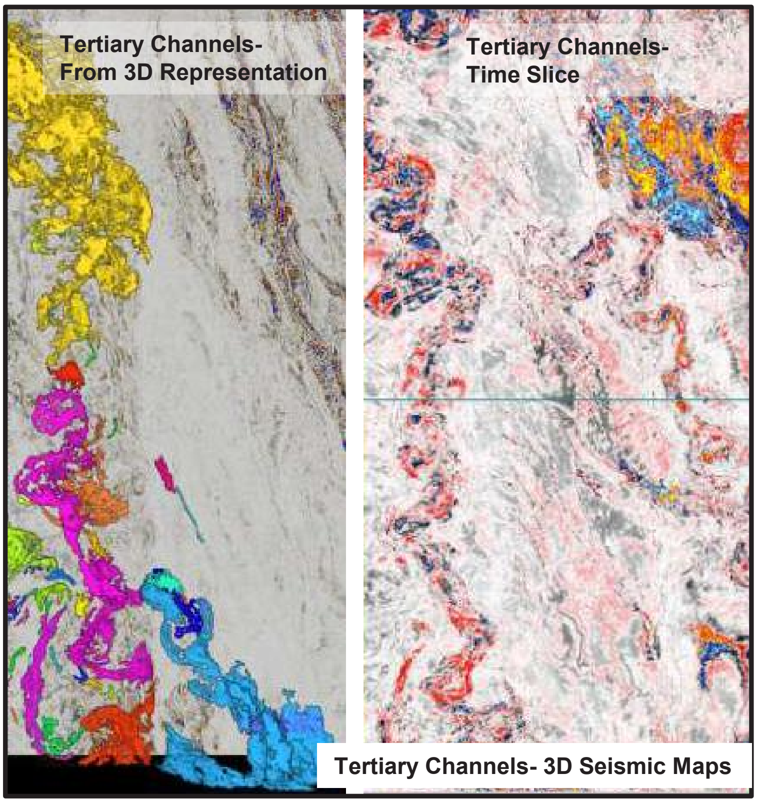
(i) A cluster of more than 10 potential **Miocene Reefs** that appears to be mainly restricted to the L10 areas. Miocene reefs are known globally to have very high per-well oil and gas production potential. The Miocene reefs are in water depths of approximately 500m and within 50km of the major Kenyan port of Mombasa.

(ii) The **Crombec Lead** is a large anticline in the western portion of the licence areas. Crombec has apparent four-way dip closure from the Lower Jurassic to the Tertiary. It has sands onlapping the crest, indicating a likely growth structure. A possible geological analogue is the Songo-Songo field in Tanzania.



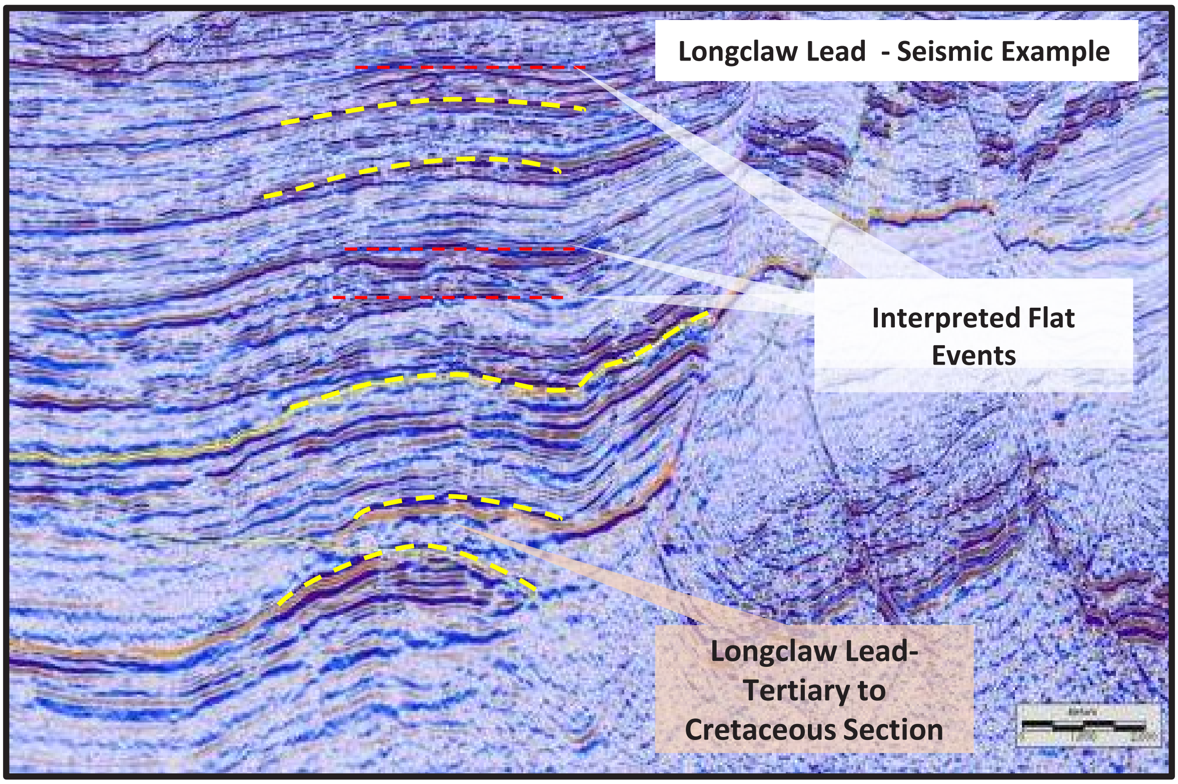
Current Mapping - Eastern Area 3D
Mapping continues on a number of Prospects and Play Types in the 3D data set acquired late in 2011 and early in 2012. Two examples of the diverse play types are –

(i) An extensive system of Tertiary channels. The Tertiary section holds most of the gas discovered to date offshore Mozambique and Tanzania. The channels in L10A & L10B may be gas charged, possibly representing a large gas resource.



Review of Operations

(ii) Structural Leads in the Tertiary to Cretaceous section. The Longclaw Lead is an example of a dip reversal associated with a fault. It shows stacked potential within the Tertiary stacked channels and Cretaceous thrust and sub-thrust plays. Amplitude anomalies and "Flat Spots" support an interpretation of gas charging. Indications of gas flags on highs give positive indications of charge.



Forward Programme
Modern high quality 3D seismic surveying is now able to provide high-definition images of subsurface structures and this has proven to be highly successful in the discoveries offshore Mozambique, Tanzania and now Kenya.

While the results of the recent Mbawa 1 discovery well offshore Kenya (Licence L8) are still being evaluated, the Mbawa 1 gas discovery proves there is a working hydrocarbon system offshore Kenya and provides significant encouragement for future exploration in L10A and L10B.

The Joint Venture plans to carry out a new 3D seismic survey commencing in November 2012.

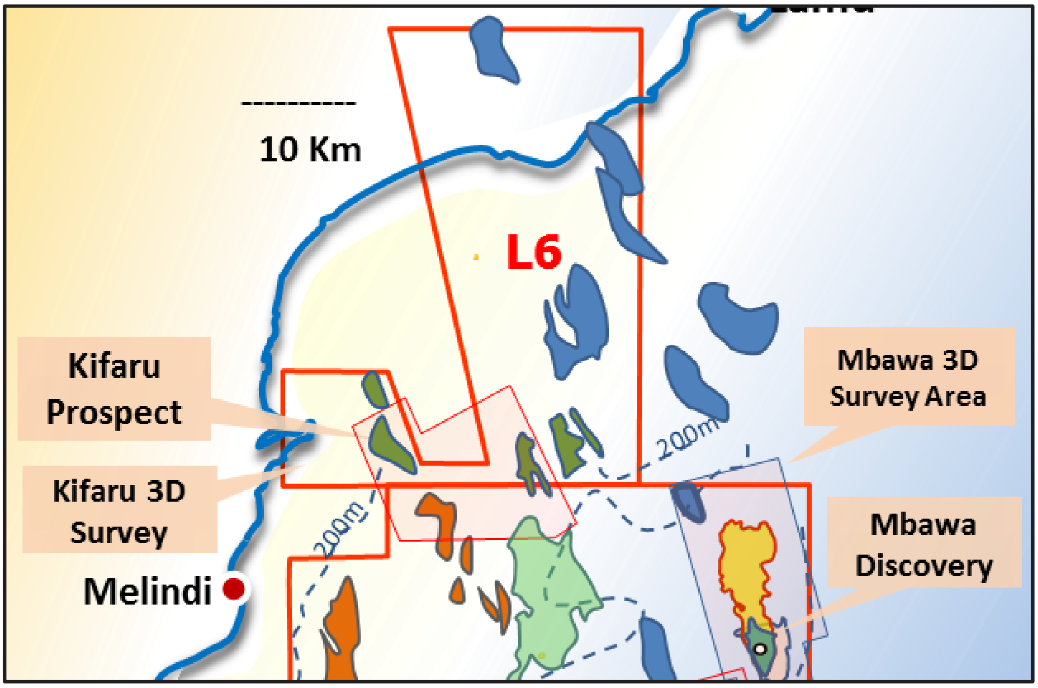
The Joint Venture is considering commencing drilling operations in L10A and L10B in 2013. Final drilling decisions will be made as work proceeds on the existing 3D and 2D data and the new planned 3D seismic survey. The Joint Venture is pursuing both oil and gas opportunities in the L10 blocks.

Other planned work includes geological field sampling, gravity field attribute studies, heat flow modelling, seismic test reprocessing, basin modelling and seismic attribute studies.

Review of Operations

<u>KENYA</u>
Block L6, Offshore / Onshore Lamu Basin
Pancontinental 40%

The L6 licence area covers approximately 3,100 sq km. Approximately one quarter of the area lies onshore and the rest extends offshore to 400 metres water depth. L6 is adjacent and geologically continuous to L8.

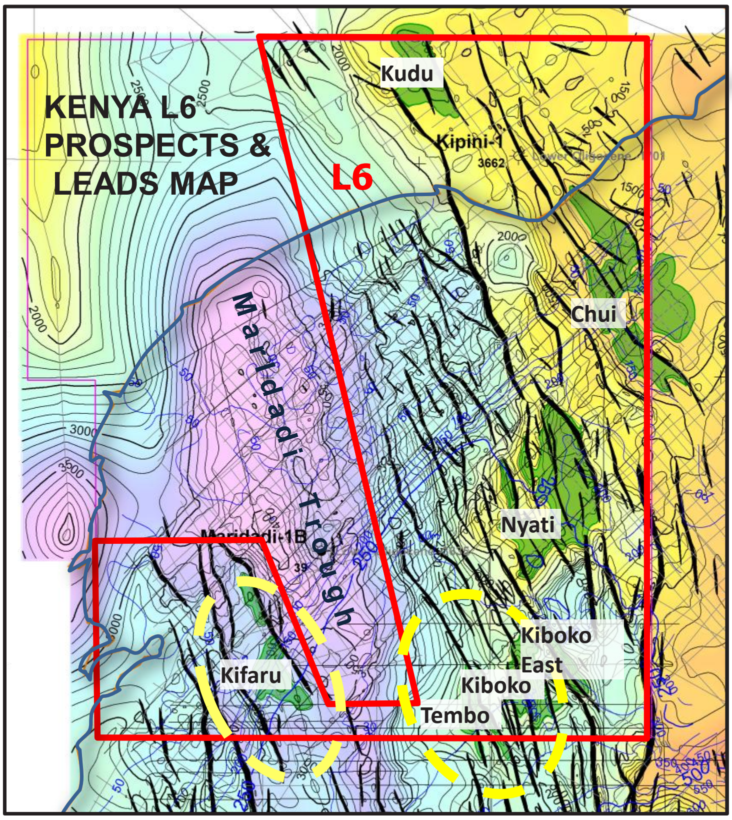


L6 lies in the Tana River Delta and within the Lamu Basin, off the Kenyan coast, with a deep sedimentary section extending from the Tertiary to at least the Jurassic.

Following encouraging hydrocarbon generation and migration studies, the joint venture is exploring the offshore portion of the licence area. A deep central graben in this area is considered to be oil and gas "source kitchen" and potential hydrocarbon trapping prospects have been identified immediately adjacent to this area.

The largest prospect is the Kifaru Prospect in water depths of 80m to 100m in the southwest of the L6 area. This prospect and several others have been covered by a 3D seismic survey.

Pancontinental expects that the 3D survey will lead to the identification of one or more locations for drilling in 2013 / 2014.

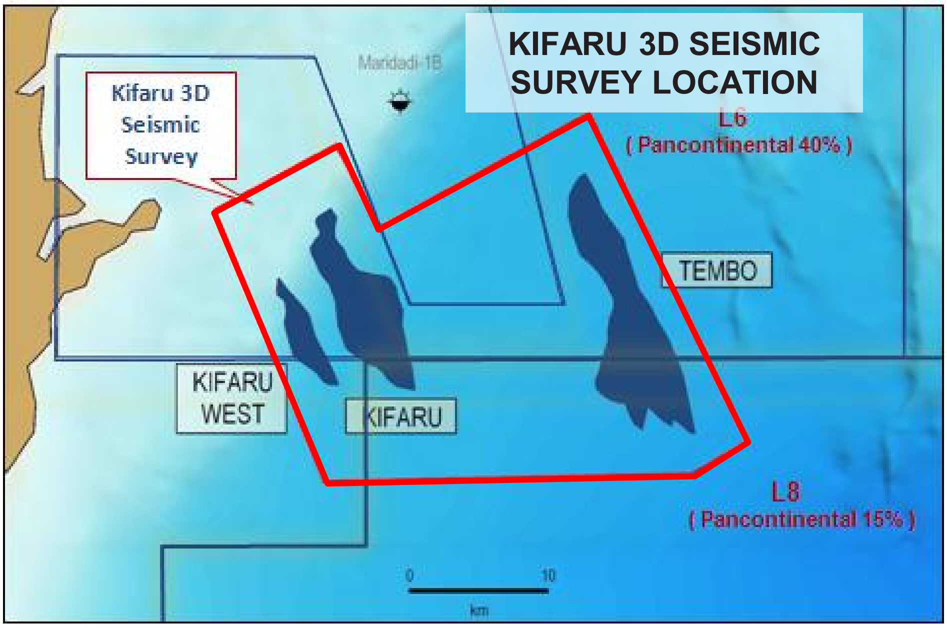


Completion of Kifaru 3D Offshore Seismic Survey

The Kifaru 3D seismic survey data acquisition was completed in offshore Kenya during July 2012. The final data acquisition covered 778 sq km over several prospects, including the primary Kifaru Prospect, in the southern portion of the L6 licence area.

Pancontinental has a 40% interest in the L6 licence, with the remaining 60% held by the operator FAR Limited.

The data will now be processed and interpreted and it is anticipated that one or more prospects will be fully defined for drilling, planned for some time in 2013.



Offshore, sea-surface oil or condensate slicks are interpreted to originate from the sea floor in the south of L6, supporting the interpretation of a working hydrocarbon system in this under-explored region.

Review of Operations

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

Several major prospects in L6 have potential in excess of 100 million barrels recoverable oil or 0.5 trillion cubic feet of gas. Eight prospects have been mapped in five clusters:

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

Forward Programme

With the increasing recognition of the hydrocarbon potential offshore Kenya, the joint venture is seeking a farminee for drilling.

Planning has commenced for drilling in 2013. The location, depth and stratigraphy of the well will be determined after interpretation of the 3D seismic data acquired earlier in 2012.

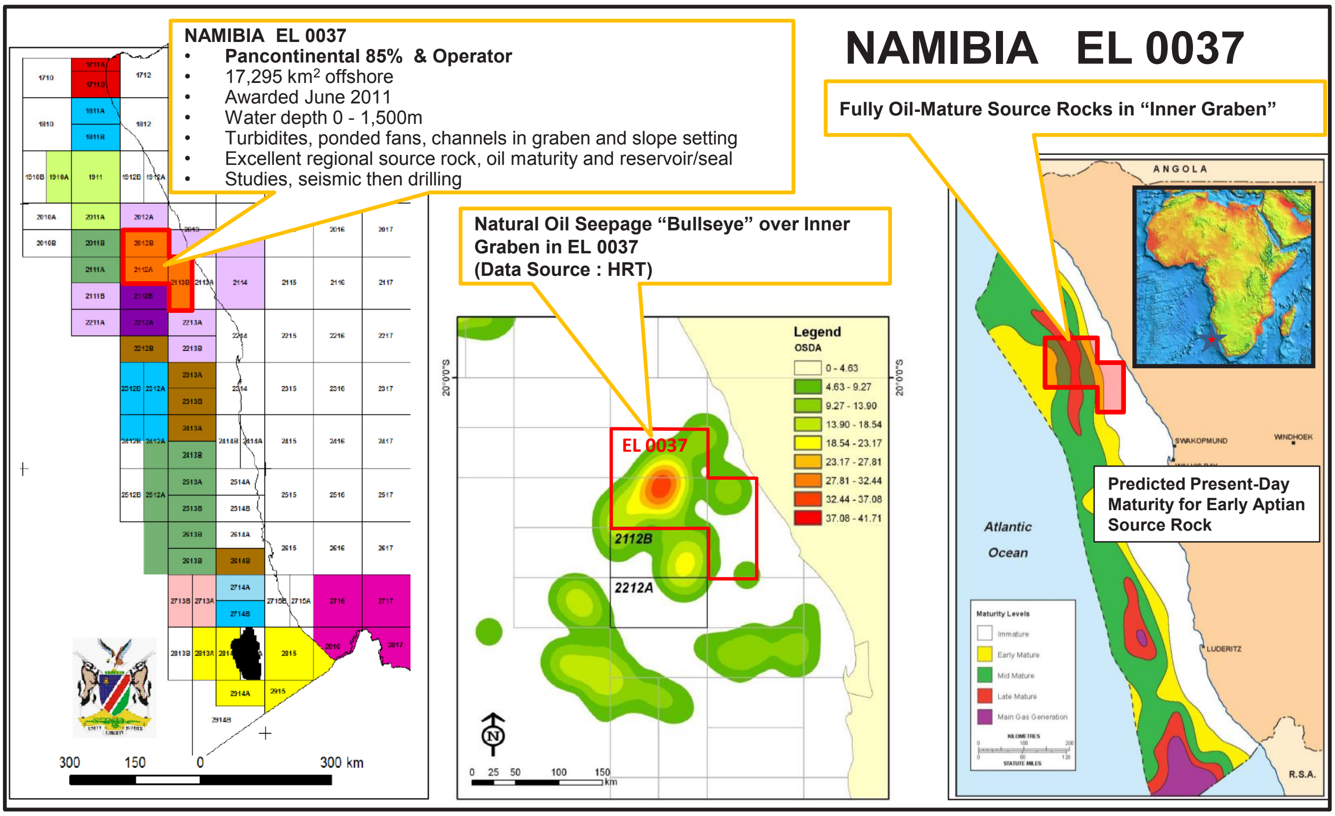
Review of Operations

NAMIBIA
EL 0037 Offshore Walvis Basin
Pancontinental 95%

Pancontinental and co-venturer Paragon Investment Holdings Pty Limited ("Paragon") were awarded the 0037 Exploration Licence by the Ministry of Mines and Energy of Namibia on 28 June 2011 and a corresponding Production Agreement was signed on 4 July 2011 (also effective 28 June 2011). The EL 0037 licence covers 17,295 sq km in the Walvis Basin.

The location of the EL was selected over Blocks 2012B, 2112A and 2113B from a 30,000 sq km Reconnaissance Licence awarded to Pancontinental in February 2007.

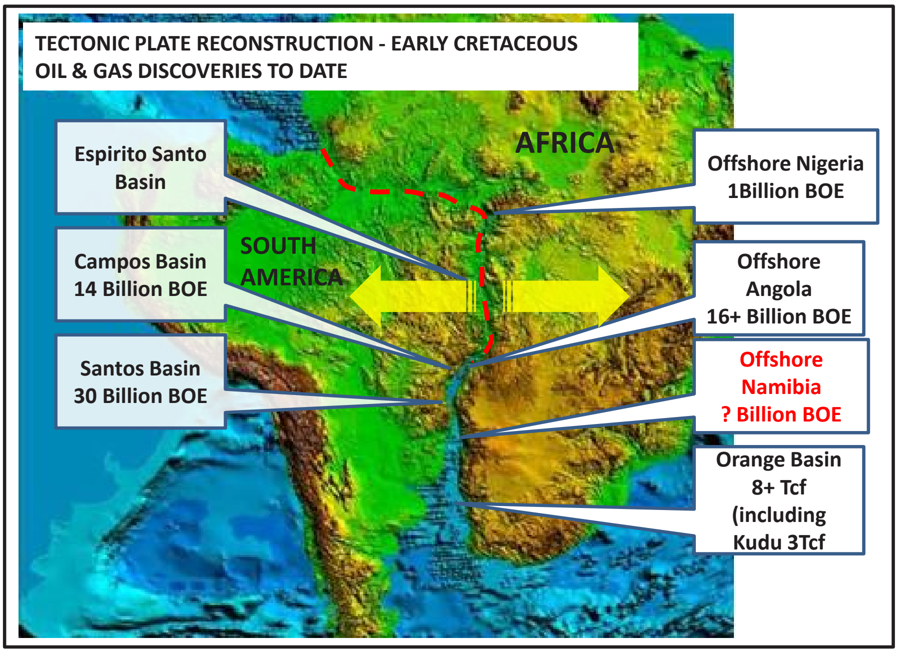
The EL gives exclusive rights to the holders for a first exploration period of four years followed by two additional periods of two years each and also provisions for the continuation of the exclusive rights under any oil or gas development.



EL 0037 covers an extensive part of an "Inner Graben", a geological trough that Pancontinental believes to be one of the limited oil-generating "fairways" offshore Northern Namibia.

Offshore Namibia is part of the plate tectonic "conjugate" of offshore Brazil, where world-scale oil and gas discoveries have been made in recent years and it lies on the West African continental margin adjacent to Angola, where there have also been many major oil discoveries. The explorations "plays" in the Blocks are similar to some of those containing large oil and gas reserves offshore elsewhere in West Africa.

Review of Operations



Offshore Namibia is an extension of the West African continental margin and in Pancontinental's opinion offshore Namibia has the potential to hold very large oil and gas reserves and it is significantly under-explored. The very large Kudu Gas Field offshore Namibia is under development by Tullow Oil plc, and other companies are actively exploring the margin for oil.

Pancontinental acquires additional 10%

In July 2012, Pancontinental reached agreement with EL 0037 co-venturer Paragon for Pancontinental to purchase a further 10% interest from Paragon in the EL 0037 licence for US$4 million. Ministerial approval of the transaction was granted and the transfer has been completed.

The transaction reduces Paragon's interest in EL 0037 to 5% and increases Pancontinental's interest to 95%. Pancontinental is the operator of the EL 0037 Joint Venture.

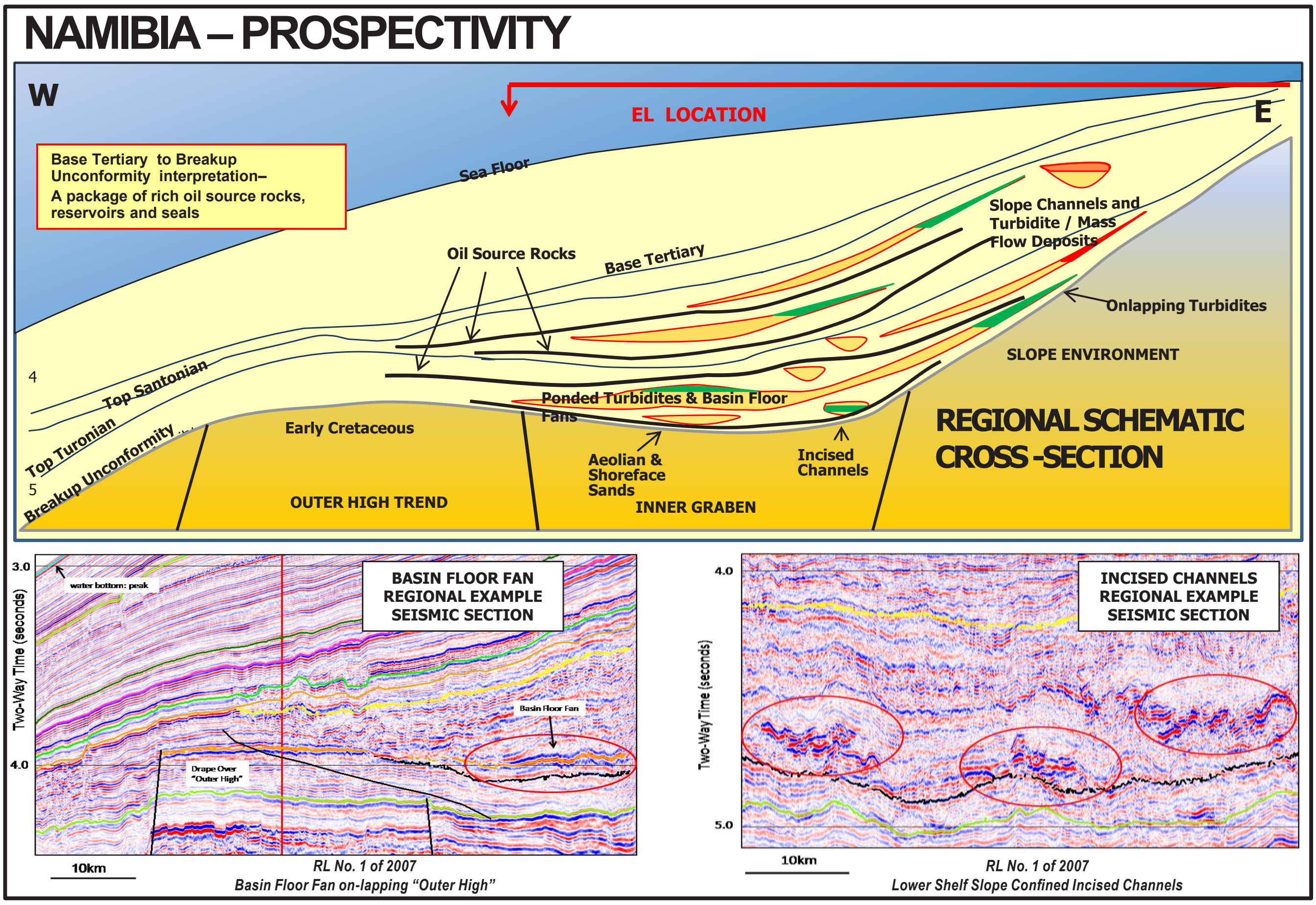
Measured against other Namibian transactions, Pancontinental believes that the acquisition was worthwhile and financially sound and Pancontinental is now one of the largest net acreage holders offshore Namibia.

We have had considerable interest shown in EL 0037 by other companies exploring regionally and while we intend to maintain a significant stake in EL0037, we are considering a farmout that will enable an acceleration of the work programme.

EL 0037 Exploration Potential

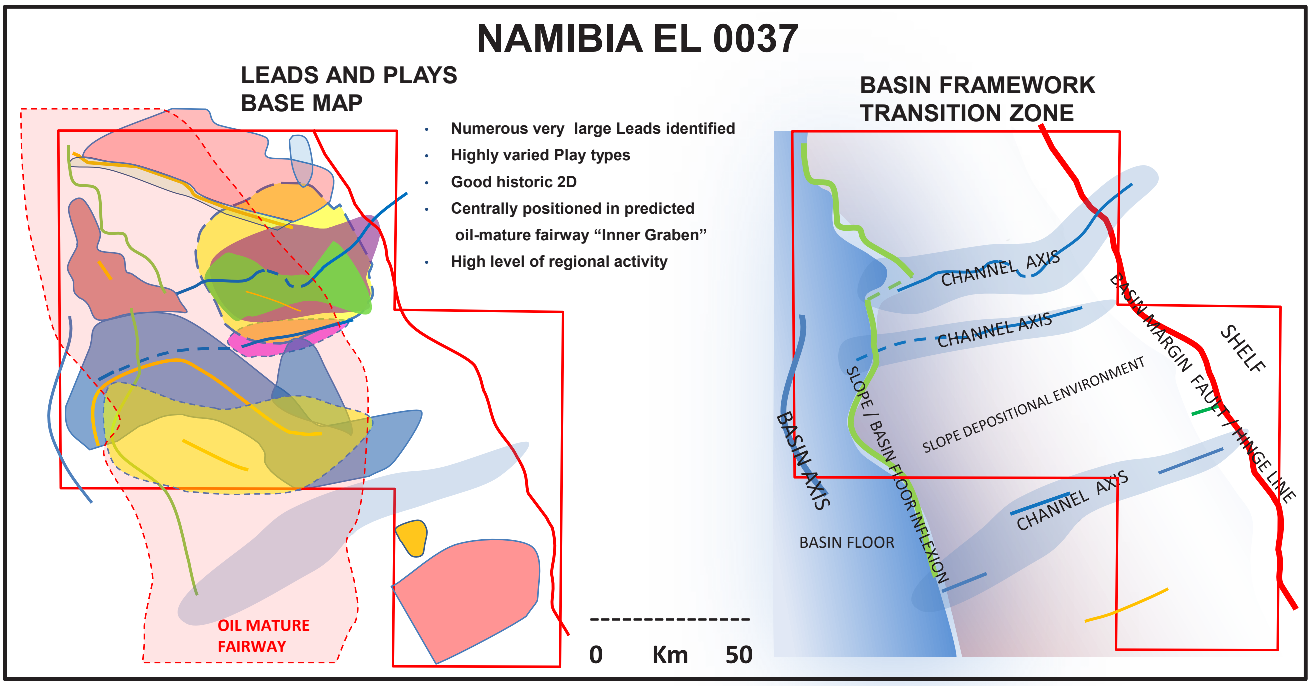
Pancontinental believes that EL 0037 is one of the few areas covering an oil generating "sweet spot" where oil prone source rocks are sufficiently buried to generate oil; similar to its four projects offshore Kenya.

Pancontinental is exploring ponded basin floor turbidites, slope fans and channels seen under the company's earlier Reconnaissance Licence. These targets are associated with a restricted graben trough interpreted to hold the rich and mature oil source rocks identified in regional wells.



Pancontinental has identified and mapped a number of ponded turbidite, slope turbidite, basin floor turbidite fans and channels forming major very large "leads" closely associated with, and within, the Inner Graben in EL 0037.

A number of the leads exceed several hundred square kilometers in area based on current mapping, and detailed mapping will be undertaken to define the full extent of the structural and stratigraphic closures and potential oil-bearing traps.



Review of Operations

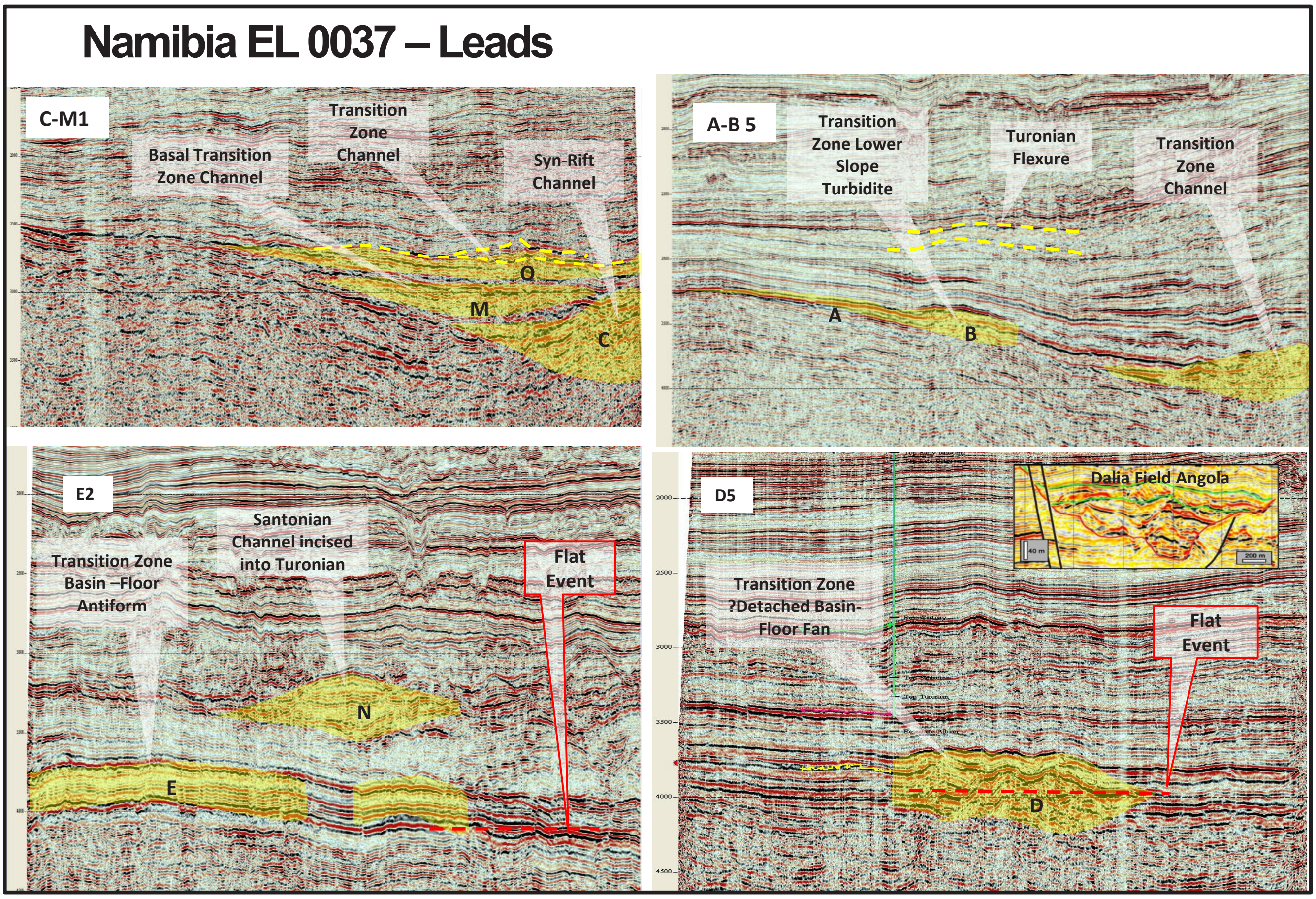
Following several 3D seismic surveys in the last two years, a number of the joint ventures along the Namibian coastal margin are now entering drilling phases.

Rigs have been secured and at least four wells will be drilled offshore Namibia in the next 12 to 18 months by operating companies including Chariot, HRT and Petrobras in joint venture groups that include BP and Repsol. At least two wells are anticipated in the vicinity of EL 0037. Recently two exploration wells proved to be non- commercial.

Farmout activity offshore Namibia has been active for some time. Most recently, Repsol SA farmed-in for drilling in the EL 0010 area, held by Tower and Arcadia and adjacent to Pancontinental's EL 0037 area.

Also recently, BP announced a farmin to Serica's licence south of EL 0037, under which BP will carry out more than 4,000 sq km of 3D seismic and then have an option to drill a well.

Offshore Namibia is continuing to attract significant international interest as an emerging oil and gas province in southwest Africa.



The potential reservoir rocks lay close to the oil source rocks. Water depths are moderate by modern exploration standards, with water depths between 0 and 1,500m in the Blocks being readily accessible for exploration.

The sparsely scattered well results show evidence of excellent oil prone source rocks and Pancontinental interprets that these will be mature to generate oil in the Inner Graben covered by Pancontinental's acreage. Other well results show excellent reservoir rocks and seals.

Pancontinental's 95% (increased from 85%) in the Blocks sees it well placed amongst some major players offshore Namibia.

Review of Operations

Forward Work Programme

Pancontinental has commenced gathering data over the new area and will remap existing seismic and map prospects and leads for further work.

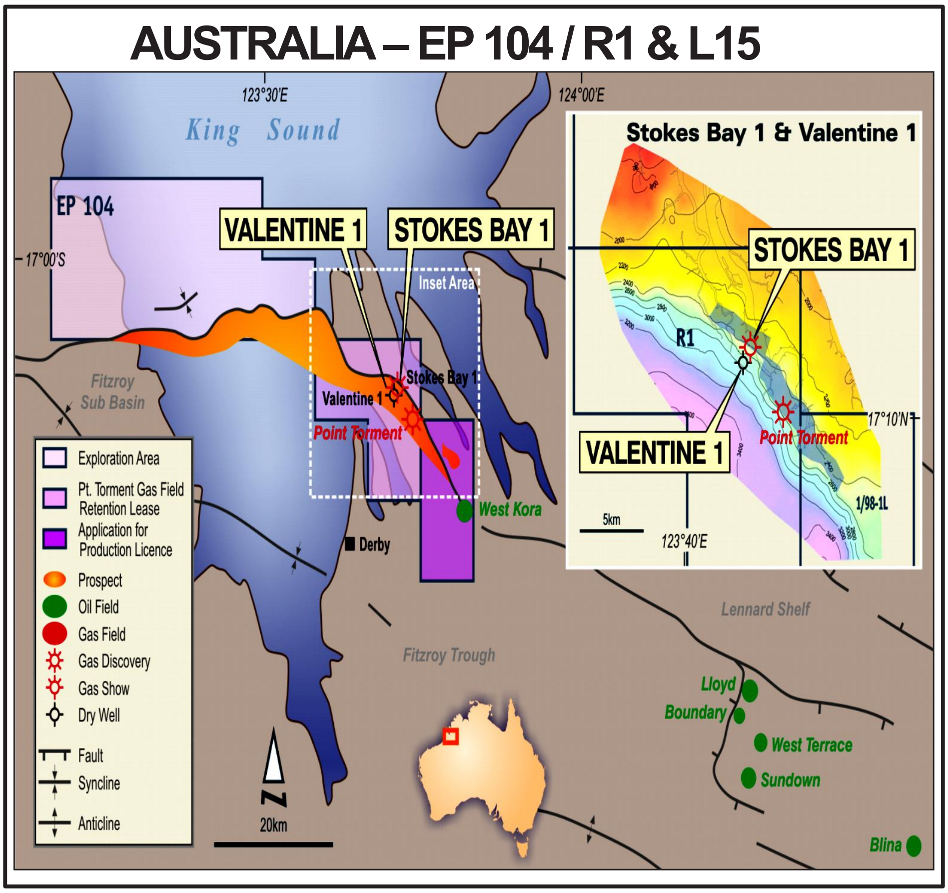
It is intended that 2D and 3D seismic data will be acquired over several prospects and drilling will be considered on the best of these.

<u>AUSTRALIA</u>

EP 104 & RL1, onshore Canning Basin, Western Australia

Pancontinental 10%

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



The RL1 area has been excised from the EP 104 exploration area to allow retention of the Point Torment gas discovery and the Stokes Bay 1 area. RL1 was renewed by the Minister of Mines and Petroleum of Western Australia for a period of five years from 8 November 2010.

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

Stokes Bay-1 was drilled in 2007 to test any updip continuation of the Point Torment gas discovery. Stokes Bay 1 lost circulation of drilling mud into cavernous and vugular porosity in the top 40 to 45 metres of the Nullara Limestone. During operations to control the lost circulation Stokes Bay-1 flowed back mud intermittently.

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

During a further testing phase a coiled tubing unit (CTU) recovered saline water interpreted to be formation fluid.

Review of Operations

AUSTRALIA
L15, onshore canning basin, Western Australia
Pancontinental 12%

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

The L15 covers two graticular blocks “6054 and 6126” and runs for 21 years from 1 April 2010.

West Kora-1 was drilled in 1984 and produced some 20,000 Barrels of oil during an extended production test, commencing at a rate of 350 BOPD.

While drilling West Kora-1 the Carboniferous aged Anderson Formation demonstrated a number of oil shows. An extended production test over the interval 1735-1751 metres in 1982 produced some 20,000 barrels of oil. The initial production rate was 350 BOPD with 30% water cut, declining to 15% oil cut / 85% water cut.

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

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

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

The L15 participants continued to consider a West Kora-1 workover programme. With improvements in technology and significantly higher oil prices, revived production from West Kora-1 could be feasible.

The L15 Joint Venture aims to upgrade the existing production facility and restore oil production from West Kora -1.

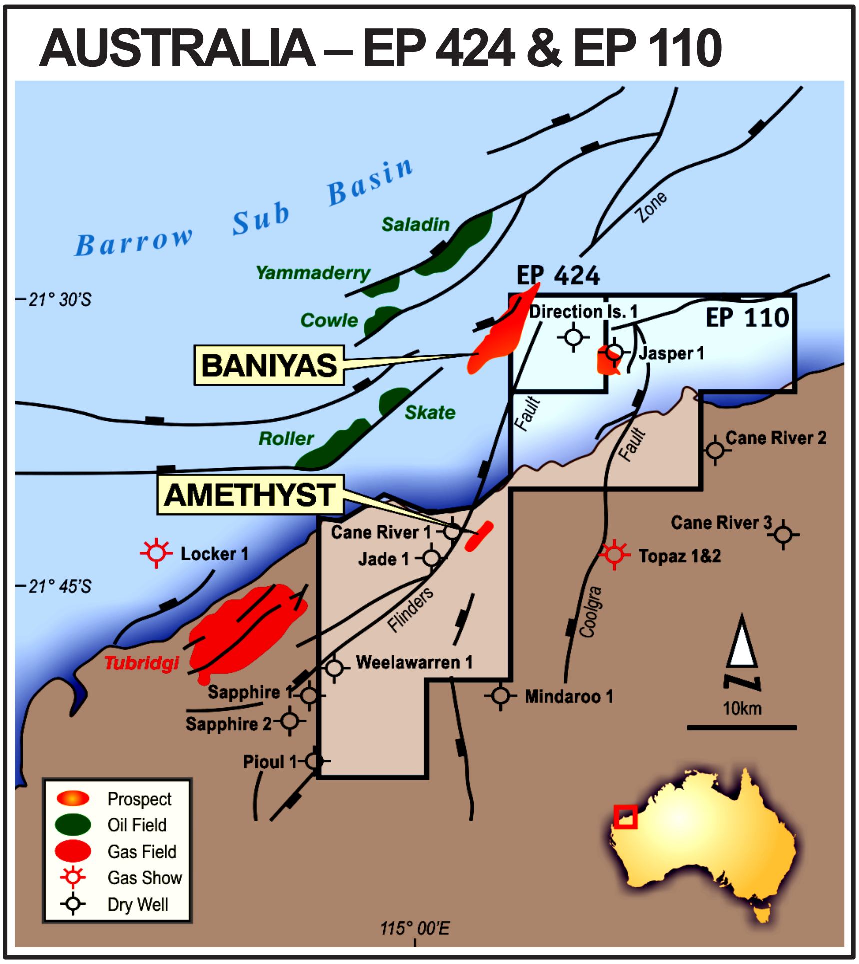
AUSTRALIA
EP 424 and 110, offshore / onshore Carnarvon Basin, Western Australia
Pancontinental 38.462%

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

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

EP 110 is operated in conjunction with EP- 424. The parties in EP-110 have identical equities to those in permit EP-424.

During the year the Joint Venture considered a further review aimed at outlining possible onshore leads and prospects in EP 110.



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

Commercial negotiations, conducted over several months, to gain access to the entire Baniyas prospect have reached a point where the Operator is of the view that there is little likelihood that the adjoining acreage can be secured.

Following a technical review of the Baniyas potential and because of the absence of success in extending Joint Venture access over all of the Baniyas Prospect, it was decided to consider selling or otherwise disposing of the licences.

Review of Operations

NEW VENTURES

Pancontinental continuously reviews new opportunities in Australia and internationally. During the year a number of new opportunities were assessed and one was completed, being the acquisition of an additional 10% interest in Namibian EL 0037.

CAPITAL RAISING

During the year Pancontinental raised $65 million (before costs) through equity issues to fund its African exploration campaigns. As a result of the capital raising programme, Pancontinental is well funded for its current projects, and in a good position to seek new opportunities, when opportune.

PROMOTION

Pancontinental has given presentations to Fund Managers, Institutions and Broking firms in London, Toronto, New York, the Far East and across Australia throughout the year. The Company's campaign to increase its recognition and brand is ongoing and will be expanded in the coming year.

SPONSORSHIP

As part of its community support program, Pancontinental was a Platinum Sponsor of the Kenya Diaspora Conference held in Perth recently. The Conference was a great success and attended by the Kenyan High Commissioner, Mr Stephen Kipkiyeny arap Tarus.

PANCONTINENTAL TEAM

During the year Pancontinental has strengthened its financial position, added to its asset portfolio and participated in the drilling of the Mbawa well, which was a discovery. Pancontinental is fortunate to have a small and dedicated team who have contributed immensely to the Company's success.

The accounting and administration team, led by Company Secretary Vesna Petrovic, and comprising Linda Underwood, Margaret Johnson and Roberta Gowans have been invaluable in their contribution to the Company.

In Namibia Pancontinental has been fortunate to gain the services of experienced oil & gas veteran, Mr Ger Kegge. Ger has had a long and successful career, firstly with Shell, and latterly with Tullow. He now resides in Windhoek, Namibia and is Pancontinental's Namibia in-country manager. Ger's industry experience and knowledge is a welcome addition to the team.

Directors' Report

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

DIRECTORS
The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr Henry David Kennedy MA (Geology), SEG, PESA, AIG (Non-Executive Chairman)

Mr Kennedy has had a long association with Australian and New Zealand resource companies and as a technical director has been instrumental in the formation and/or development of a number of successful listed companies. During his term as executive director, these companies were involved in discovery of the Tubridgi gas field, South Pepper, North Herald and Chervil oil fields in Western Australia and the Kupe South and Rua oil/gas condensate fields in New Zealand. Mr Kennedy is currently a non-executive director of Norwest Energy NL (since April 1997).

Mr Roy Barry Rushworth, BSc (Executive Director, Chief Executive Officer)

Mr Rushworth has more than twenty five years experience in petroleum exploration. He is a graduate of Sydney University, with a Bachelor of Science Degree in Geology and Marine Sciences. Commencing with positions in exploration operations, his career then extended to a period as Chief Geologist and subsequently Exploration Manager for an Australian listed company. A number of oil and gas discoveries were made by the company during that time. More recently, as the General Manager and Director of Afrex Limited, he was responsible for acquiring international new venture opportunities for Afrex Limited and its then co-venturer Pancontinental Oil & Gas NL. In this position he identified and negotiated projects in Malta, Kenya and Morocco. Following the merger of Afrex Limited with Pancontinental in August 2005, he accepted the position of Director - New Ventures for Pancontinental and is now the Chief Executive Officer of the company.

Mr Anthony Robert Frederick Maslin BBus (Independent Non-Executive Director)

Mr Maslin is a stockbroker with corporate experience in both management and promotion, along with an extensive understanding of financial markets. Mr Maslin has been instrumental in the capital raisings and promotion of several resource development companies. Mr Maslin is also a director of Buxton Resources Ltd (since November 2010).

Mr Ernest Anthony Myers CPA (Executive Finance Director)

Mr Myers has over 30 years experience in the resources industry. Mr Myers is an accountant (CPA) who has held senior management and executive roles within a number of ASX listed companies. Mr Myers joined Pancontinental in March 2004 as Company Secretary and was appointed Finance Director in January 2009. He brings corporate and operational experience in a variety of fields including project development, feasibility studies and both equity and debt financing. Prior to his appointment with Pancontinental, Mr Myers was CFO and Company Secretary of Dragon Mining Limited for a period of six years during its transition from an exploration company to a gold producer in Sweden. Mr Myers has extensive experience in exploration and operational issues, particularly in Kenya, Tanzania, Namibia and Eritrea. Mr Myers has been an alternate director of East Africa Resources Limited since June 2010.

COMPANY SECRETARY

Mrs Vesna Petrovic, BComm, CPA

Mrs Petrovic is a Certified Practicing Accountant with over 10 years' experience in the resources sector and has previously held positions with numerous publicly listed entities. In particular, Mrs Petrovic has significant experience with companies involved in Africa. Mrs Petrovic holds a Bachelor of Commerce, Major in Accounting and Business Law and has completed the Graduate Diploma in Applied Corporate Governance from Chartered Secretaries Australia Ltd.

Directors' Report (continued)

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

Directors' Interests	Ordinary Shares	Options over Ordinary Shares
Henry David Kennedy	133,301,602	1,500,000
Roy Barry Rushworth	35,335,610	3,000,000
Anthony Robert Frederick Maslin	14,583	-
Ernest Anthony Myers	285,715	-

	Cents
EARNINGS PER SHARE	
Basic earnings (loss) per share	(0.23)
Diluted earnings (loss) per share	(0.23)

CORPORATE INFORMATION

Corporate structure
Pancontinental Oil & Gas NL is a no liability company incorporated and domiciled in Australia.

Nature of operations and principal activities
The principal activity during the year of entities within the consolidated entity was exploration for oil and gas.

There have been no significant changes in the nature of those activities during the year.

Employees
The consolidated entity had no employees as at 30 June 2012, (2011: no employees). The consolidated entity employs the services of specialised consultants where and when needed.

OPERATING AND FINANCIAL REVIEW

Review of Operations

Kenya L8 [15%]
During the year, Pancontinental announced the completion of a farmout of part of its interest in Kenya licence L8. The farmout to Tullow Kenya B.V. ("Tullow"), a wholly owned subsidiary of Tullow Oil plc was finalised by the signed consent of the Minister of Energy of Kenya and by the satisfaction of other conditions precedent. Tullow's interest of 10% was transferred from Afrex Ltd, a wholly owned subsidiary of Pancontinental.

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

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

Kenya L6 [40%]
Tenders for the Kifaru propect 3D seismic survey were sought during the year, with the seismic survey of 778 sq km completed in July 2012. Pancontinental expects that the 3D survey will lead to the identification of one or more locations for drilling in 2013/2014.

Kenya L10A & L10B [15%]
Mid January, in areas L10A and L10B, extensive new 3D and 2D offshore seismic surveys were completed. The Eastern section of the licence areas was covered by 3D whereas 2D covered the Western parts of the licence area. Processing and interpretation continued after year end.

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

Directors' Report (continued)

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

Australia EP 104/R1 [10%]
In the Canning Basin, prospectivity of the licence areas continued to be assessed by the EP 104 / R1 joint ventures. Going forward, Pancontinental will consider the value of the project and future potential if any.

Australia L15 [12%]
Elsewhere in the Canning Basin, rehabilitation of the West Kora oil field production facility was contemplated by the L15 joint venture. Pancontinental believes with current higher oil prices and improvements in technology, revived production from the oil field could be feasible in the future.

Australia EP 424 [38.462%]
In the Carnarvon Basin, commercial negotiations to gain access to the entire Baniyas prospect have reached a point where the Operator is of the view that there is little likelihood that the adjoining acreage can be secured.

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

Australia EP 110 [38.462%]
Also in the Carnarvon Basin, the EP 110 joint venture considered a further review aimed at outlining possible onshore leads and prospects.

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

Performance Indicators
The board closely monitors the group's operating plans, financial budget and overall performance.

Dynamics of the Business
The company continues to develop its International and Australian acreage utilising the skills and experience of the existing operators. Whilst the company is committed to further developing existing projects, emerging opportunities are reviewed on a timely basis.

Risk Management
The group takes a proactive approach to risk management. The board is responsible for ensuring that risks and opportunities are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the board.

The group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee. The board has a number of mechanisms in place to ensure that its objectives and activities are aligned with the risks identified. These include the following:

- Implementation of board approved operating plans and cash flow budgets and board monitoring of progress against these budgets.
- Reports on specific business risks, including such matters as environmental issues and concerns.
- The group has advised each director, manager and consultant that they must comply with a set of ethical standards maintaining appropriate core company values and objectives. Such standards ensure shareholder value is delivered and maintained. Standards cover legal compliance, conflict resolution, privileged information and fair dealing.
- The board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters which have a material effect on the underlying security price. ASX announcements, the web page of the company and other media resources are used to convey such information. The board encourages full participation by shareholders at the AGM and shareholders are requested to vote on board and executive remuneration aggregates as well as the Employee Incentive Scheme.

Directors' Report (continued)

Operating Results for the Year

Summarised operating results are as follows:

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

Shareholder Returns

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

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

Investments for Future Performance

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

Review of Financial Condition

Capital Structure

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

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

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

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

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

Treasury policy

The board has not considered it necessary to establish a separate treasury function because of the size and scope of the group's activities.

Liquidity and Funding

- The group has sufficient liquidity and funding to continue operations into the foreseeable future.
- All operating plans and budgets are approved by the board and progress is reviewed continuously with reference to the approved plan and budget.

Statement of Compliance

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Significant events after balance date include:

12 July 2012 – Kenya L6
In the company's Kenya L6 offshore exploration licence, 3D seismic data was acquired post financial year end. The data acquisition covered a number of prospects, in particular the Kifaru Prospect towards the south of the licence area. Processing and interpretation of the data in the coming months may provide potential prospects for drilling going forward.

19 July 2012 – Namibia EL 0037
The company increased its Namibian acreage by acquiring an additional 10% of co-venturer Paragon Holdings Limited's ("Paragon") interest in the EL 0037 licence. The purchase price of the acquisition was US $4 million, with US $2 million payable immediately and the remaining US $2 million upon the earlier of; 1) Pancontinental farming out an interest in the licence: or 2) six months after the date of the transaction.

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

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

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

Apart from the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations other than the following:

Carbon Tax
The Clean Energy Act will introduce a carbon pricing mechanism into the Australian economy from 1 July 2012. The carbon emissions from facilities in which Pancontinental has an interest may attract the initial price set by Government of $23 per tonne CO_2 equivalent. In the next two years the carbon price will rise with inflation and from 1 July 2015 the carbon price will no longer be fixed by the Australian Government, but set by the market.

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

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

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

Directors' Report (continued)

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

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

The company's operations are not regulated by a particular environmental regulation under a law of the Commonwealth or of a State or Territory.

SHARE OPTIONS

Unissued shares
At the date of this report there were 4,500,000 unissued ordinary shares under options. Refer to the notes for further details on the options outstanding.

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

Shares issued as a result of the exercise of Options
2,250,000 options were exercised with shares issued as a result, during the financial year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Since the end of the previous financial year the company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors and officers and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contract. The premiums were paid in respect of the following officers of the company and its controlled entities:

Mr HD Kennedy, Mr RB Rushworth, Mr ARF Maslin, Mr EA Myers and Mrs V Petrovic.

REMUNERATION REPORT (Audited)

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

Remuneration philosophy
A description of the remuneration structures in place is as follows: The non-executive directors received a fixed fee for their services. They do not receive performance based remuneration. The chief executive officer received a fixed fee for his respective executive services (with no bonus or other performance-based remuneration), and a separate fixed fee for his services as a director. Directors do not receive any termination or retirement benefits.

Remuneration committee
The full board carries out the role of the remuneration committee.

Remuneration structure
In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration
Objective
The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure
The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 29 November 2007 when shareholders approved an aggregate remuneration of $400,000 per year. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. The non-executive directors of the company can participate in the Employee Option Incentive Plan with shareholder approval. The remuneration of executive and non-executive directors for the period ending 30 June 2012 is detailed in Table 1 of this report.

Senior manager and executive director remuneration
Objective
The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain executives of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure
In determining the level and make up of executive remuneration, the board takes independent advice from external consultants when necessary. It is the board's policy that employment contracts are only entered into with the chief executive officer and with key executives. Details of the CEO's contract are as follows:

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

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

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

Directors’ Report (continued)

Company performance

Company performance is reflected in the movement in the company's share price over time. As the company is in an exploration phase, returns to shareholders will primarily come through share price appreciation. The board’s strategy in achieving this aim is to acquire early stage projects which can attract quality joint venture partners.

The company has developed skills in the acquisition of projects and also built strategic alliances with other companies to further develop its project portfolio.

Directors' Report (continued)

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

	Primary benefits		Post Employment	Equity	Total	Value of options as proportion of Revenue
	Salary & Fees	Cash STI	Superannuation	Options (Issued)		
Henry David Kennedy (Non-Executive Chairman)						
2012	**50,000**	**-**	**-**	**63,726**	**113,726**	**14.6%**
2011	50,000	-	-	-	50,000	-
Roy Barry Rushworth (Executive Director, Chief Executive Officer)						
2012	**550,000**	**-**	**-**	**127,453**	**677,453**	**29.2%**
2011	415,833	-	-	-	415,833	-
Ian Raymond (Inky) Cornelius (Non-Executive Director) (Passed away 14 July 2010)						
2012	**-**	**-**	**-**	**-**	**-**	**-**
2011	2,000	-	-	-	2,000	-
Anthony Robert Frederick Maslin (Non-Executive Director)						
2012	**48,000**	**-**	**-**	**-**	**48,000**	**-**
2011	25,806	-	-	-	25,806	-
Ernest Anthony Myers (Executive Finance Director)						
2012	**48,000**	**-**	**-**	**-**	**48,000**	**-**
2011	48,000	-	-	-	48,000	-
Total Current Year Remuneration	**696,000**	**-**	**-**	**191,179**	**887,179**	**-**

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

	Issued
Henry David Kennedy	750,000
Roy Barry Rushworth	1,500,000
Anthony Robert Frederick Maslin	-
Ernest Anthony Myers	-
Total Options Issued	**2,250,000**

From 1 July 2003, options granted as part of director and management remuneration have been valued using a Black-Scholes option pricing model, in which the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying shares, the current market price of the underlying shares and the expected life of the options are taken into account. See following table for further details. 2,250,000 options were granted to directors during the year.

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

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

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

Directors' Report (continued)

END OF REMUNERATION REPORT

DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

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

Notes
The directors are of the opinion that it is often more efficient to deal with matters by circular resolutions than by board meetings, and 21 matters were dealt with in such a manner during the year.

ROUNDING

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor independence declaration is set out on the following page and reviews part of the Directors' Report for the year ended 30 June 2012.

NON-AUDIT SERVICES

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

Signed in accordance with a resolution of the Directors.

E.A. Myers

Ernest Anthony Myers
Director

Perth 27 September 2012

Auditor’s Independence Declaration

AUDITOR INDEPENDENCE

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

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

In accordance with Section 307C of the Corporations Act 2001 (the “Act”) I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2012 annual financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Mr Graham Swan

Lead Auditor

27 September 2012

Corporate Governance Statement

In accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles and Recommendations")[1], Pancontinental Oil & Gas NL ("the company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Principles and Recommendations, the company has followed each recommendation where the board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the company and the board, resources available and activities of the company. Where, after due consideration, the company's corporate governance practices depart from the ASX Principles and Recommendations, the board has offered full disclosure of the nature of and reason for the adoption of its own practice.

Further information about the company's corporate governance practices is set out on the company's website at www.pancon.com.au. In accordance with the ASX Principles and Recommendations, information published on the company's website includes charters (for the board and its committees), the company's code of conduct and other policies and procedures relating to the board and its responsibilities.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

During the company's 2011/2012 financial year ("reporting period") the company has followed each of the ASX Principles and Recommendations, other than in relation to the matters specified below.

Principle 2

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

Notification of Departure:

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

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

Explanation for Departure:

Given the size and scope of the company's operations the board considers that it is appropriately structured to discharge its duties in a manner that is in the best interests of the company. The board believes its current composition is in line with the long term interests of shareholders. Furthermore, mechanisms are in place so that if a director considers it necessary, they may obtain independent professional advice. The board considers independence, amongst other things, when recommending new directors to the board.

Principle 2

Recommendation 2.2: The chair should be an independent director

Notification of Departure

The chair is not considered to be independent.

Explanation for Departure

Mr Kennedy is not independent by virtue of his substantial shareholding in the company. However, the board considers that Mr Kennedy's interests are aligned with the long term interests of shareholders. Given Mr Kennedy's extensive experience and qualifications, the board believes Mr Kennedy is the most appropriate director to carry out the role of chair.

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[1] A copy of the ASX Principles and Recommendations is set out on the company's website under the Section entitled "Corporate Governance".

Corporate Governance Statement

Principle 2

Recommendation 2.4: The board should establish a nomination committee

Notification of Departure:

The full board fulfils the role of a nomination committee.

Explanation for Departure:

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

Principle 4

Recommendation 4.1: The board should establish an audit committee

Recommendation 4.2: Structure of the audit committee

Notification of Departure:

The full board fulfils the role of an audit committee.

Explanation for Departure:

The composition of the board is not suitable for the formation of a separate audit committee in accordance with the recommendation. Further, the independent director does not possess the requisite financial expertise recommended in an audit committee. The board has adopted an audit committee charter to assist with its function as an audit committee. The audit committee charter provides that independent directors may meet with the external auditor.

Principle 7

Recommendation 7.2: Implement, manage and report on risk management system

Notification of Departure:

The board has not received a formal documented report from management on the effectiveness of their management of the company's material business risks other than verbal updates at board meetings.

Explanation for Departure:

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

Principle 8

Recommendation 8.1: The board should establish a remuneration committee

Recommendation 8.2: Structure of the remuneration committee

Notification of Departure:

The board fulfils the function of a remuneration committee.

Corporate Governance Statement

Explanation for Departure:
Given the size and composition of the board, it is not practicable that a separate committee be formed. To assist it to carry out its function in relation to remuneration matters, the board has adopted a remuneration committee charter.

COMMITTEE MEETINGS

Due to the size of the current board, the functions of the Nomination, Audit and Remuneration Committees were carried out by the full board during the financial year. As such, no separate meetings were held for the Nomination and Remuneration Committees. The board agenda may incorporated these items and appropriate discussions held at the board meetings.

Details of each of the director's qualifications are set out in the Directors' Report. All of the directors have substantial industry experience and consider themselves to be financially literate. Mr Myers is a Certified Practising Accountant and therefore meets the tests of financial expertise.

OTHER

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing the skills, experience, expertise and term of office of each director is set out in the Directors' Report.

Identification of Independent Directors

In considering the independence of directors, the board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("Independence Criteria"). To the extent that it is necessary for the board to consider issues of materiality, the board refers to the thresholds for qualitative and quantitative materiality as adopted by the board and contained in the board charter, which is disclosed in full on the company's website.

Applying the Independence Criteria, the independent director of the company for the current financial year was Mr Maslin.

Corporate Reporting

ASX Principle 7.3 requires the board to disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The board confirms that such assurance has been received.

Statement concerning availability of Independent Professional Advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chair, the company will pay the reasonable expenses associated with obtaining such advice.

Confirmation of whether performance Evaluation of the Board and its members has taken place and how it was conducted

During the reporting period a formal evaluation of the board and its members was not carried out as it was not considered to be a beneficial procedure given the size and composition of the board and the nature of the company's operations. However, the composition of the board and its suitability to carry out the company's objectives is discussed on an as-required basis during regular meetings of the board and any adjustments are made accordingly.

Existence and Terms of any Schemes for Retirement Benefits for Executive and Non-Executive Directors

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

Corporate Governance Statement

Directors' Terms in Office

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

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

Diversity – Board Composition

The mix of skills and diversity for which the company is looking to achieve in membership of the board is one that is as diverse as practicable given the size and scope of the company's operations. The company has adopted a Diversity Policy which is available on the company's website under the Corporate Governance section.

Diversity – Measurable Objectives

The company's primary objectives with regard to diversity are as follows:

- the company's composition of board, executive, management and employees to be as diverse as practicable; and
- to provide equal opportunities for all positions within the company and continue the company's commitment to employment based on merit.

Primary objectives set by the company with regard to diversity have been met, as described below:

- blend of skills – wide range of backgrounds; geology, petroleum exploration, finance and corporate experience;
- cultural backgrounds – Australian, European and American;
- gender – both male and female members; and
- age – the age range spans over 40 years.

The above points relate to the composition of the board, as the company does not have any employees.

Diversity – Annual Reporting

The company's annual reporting on the percentage of females in the organisation is as follows:

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

Statement of Comprehensive Income

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

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

Statement of Financial Position

AT 30 JUNE 2012	Notes	CONSOLIDATED 2012 $	2011 $
CURRENT ASSETS			
Cash assets		**47,722,233**	5,710,905
Trade and other receivables	4	**98,582**	44,028
TOTAL CURRENT ASSETS		**47,820,815**	5,754,933
NON-CURRENT ASSETS			
Property, plant and equipment	6	**3,598**	2,404
Deferred exploration, evaluation and development costs	7	**23,211,960**	9,879,712
TOTAL NON-CURRENT ASSETS		**23,215,558**	9,882,116
TOTAL ASSETS		**71,036,373**	15,637,049
CURRENT LIABILITIES			
Trade and other payables	8	**235,805**	187,740
TOTAL CURRENT LIABILITIES		**235,805**	187,740
TOTAL LIABILITIES		**235,805**	187,740
NET ASSETS		**70,800,568**	15,449,309
EQUITY			
Parent entity interest			
Contributed equity	9a	**95,132,106**	38,166,253
Reserves	10	**298,956**	764,258
Accumulated losses	10	**(24,630,494)**	(23,481,202)
Total parent entity interest in equity		**70,800,568**	15,449,309
TOTAL EQUITY		**70,800,568**	15,449,309

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

Statement of Changes in Equity

AT 30 JUNE 2012

Consolidated	Share Capital $	Retained Earnings $	Option Reserve $	Total Equity $
Balance at 1 July 2011	**38,166,253**	**(23,481,202)**	**764,258**	**15,449,309**
Profit or loss	**-**	**(1,805,773)**	**-**	**(1,805,773)**
Other comprehensive income/(loss)	**-**	**-**	**-**	**-**
Shares issued (net of costs)	**56,965,853**	**-**	**-**	**56,965,853**
Share options		**656,481**	**(465,302)**	**191,179**
Balance at 30 June 2012	**95,132,106**	**(24,630,494)**	**298,956**	**70,800,568**
Balance at 1 July 2010	33,433,998	(22,937,128)	1,187,215	11,684,085
Profit or loss	-	(967,031)	-	(967,031)
Other comprehensive income/(loss)	-	-	-	-
Shares issued (net of costs)	4,732,255	-	-	4,732,255
Share options		422,957	(422,957)	-
Balance at 30 June 2011	38,166,253	(23,481,202)	764,258	15,449,309

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

Statement of Cash Flows

YEAR ENDED 30 JUNE 2012	Notes	CONSOLIDATED 2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		**(1,686,512)**	(1,044,789)
Interest received		**430,256**	89,526
Sundry income		**5,500**	1,083,151
Expenditure on exploration interests		**(13,713,309)**	(789,097)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	11(a)	**(14,964,065)**	(661,209)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	**(3,803)**	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**(3,803)**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		**60,705,250**	5,000,000
Share issue costs		**(3,725,804)**	(267,745)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**56,979,446**	4,732,255
NET INCREASE/(DECREASE) IN CASH HELD		**42,011,578**	4,071,046
Add opening cash brought forward		**5,710,905**	1,639,859
Effects of exchange rate changes		**(250)**	-
CLOSING CASH CARRIED FORWARD	11(b)	**47,722,233**	5,710,905

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

Notes to the Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

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

Basis of preparation

The report has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuation of non-current assets. The accounting policies adopted are consistent with those of the previous year. The following specific accounting policies have been consistently applied, unless otherwise stated.

(a) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(b) Exploration Expenses

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Such costs are carried forward where they are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale, or where activities in the area of interest have not yet reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Pancontinental Oil & Gas NL (the parent entity) and all entities which Pancontinental Oil & Gas NL controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

(d) Foreign currencies

Translation of foreign currency transactions

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

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

Notes to the Financial Statements

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

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

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

Interest expense is charged as an expense as it accrues.

(f) Receivables
Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

(g) Investments
Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount.

(h) Recoverable Amount
The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write down is expensed in the reporting period in which it occurs.

(i) Property, plant and equipment
Cost and valuation
Property, plant and equipment is measured at cost.

Depreciation
Depreciation is provided on a straight line basis on all property, plant and equipment.

Major depreciation rates are:

	2012	**2011**
Plant and equipment:	**30%**	**30%**

(j) Joint ventures
Interests in the joint venture operations are brought to account by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

In the company's financial statements, investments in joint venture operations were carried at the lower of cost and recoverable amount.

(k) Going concern
The directors consider that the going concern basis for the consolidated entity is appropriate and recognise that additional funding is required to ensure the consolidated entity can continue its operations for the twelve month period from the date of this financial report and to fund the continued development of the consolidated entity's exploration assets. This basis has been determined after consideration of the following factors:

- The ability to issue additional share capital under the Corporations Act 2001, if required, by a share purchase plan, share placement or rights issue;
- The option of farming out all or part of the consolidated entity's exploration projects; and
- The ability, if required to dispose of interests in exploration and development assets.

Accordingly, the directors believe that the consolidated entity will obtain sufficient cash inflows to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial statements.

Notes to the Financial Statements

(l) Payables
Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

(m) Provisions
Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(n) Contributed equity
Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(o) Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of Services
Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Interest Revenue
Control of the right to receive the interest payment. Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(p) Taxes
Tax-effect accounting is applied using the income statement liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued no provision for potential capital gains tax has been made.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Notes to the Financial Statements

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.

(r) Earnings per share
Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:
- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(s) Comparatives
Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(t) Financial Instruments
See financial instruments note for compliance notes with *AASB 7*, financial instruments: disclosures.

(u) New accounting standards and interpretations
The financial report is presented in Australian dollars which is the company's functional currency. A number of new standards, amendments to standards and interpretations are effective for the current annual report period, however, none have been applied in preparing these consolidated financial statements. The standards are not expected to have a material impact on the accounting policies or consolidated financial statements of the group.

Notes to the Financial Statements

2. DEPRECIATION AND WRITE OFF	Notes	CONSOLIDATED 2012 $	2011 $
Expenses			
Depreciation of non-current assets:			
Office furniture and equipment		**1,651**	1,183
Generative exploration and write off:			
Exploration, evaluation and development costs		**42,035**	58,387

3. INCOME TAX	CONSOLIDATED 2012 $	2011 $
(a) Income Tax (Benefit)/Expense		
The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:		
Prima facie tax on profit from ordinary activities	**(541,732)**	(290,109)
Tax effect of permanent differences:		
Other items (net)	**-**	-
Amount not brought to account as a carried forward future income tax benefit	**541,732**	290,109
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 :

Adjustments to carry forward tax losses	**-**	-
Tax Losses not brought to account	**5,965,816**	5,267,832
Total	**5,965,816**	5,267,832

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

4. RECEIVABLES (CURRENT)	CONSOLIDATED 2012 $	2011 $
Sundry receivables	**98,582**	44,028
Total	**98,582**	44,028

(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.

Notes to the Financial Statements

5. INTERESTS IN SUBSIDIARIES

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

*Indicates companies not audited by Rothsay Chartered Accountants.

6. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED 2012 $	2011 $
Office equipment		
At cost	**53,582**	50,737
Less: Accumulated depreciation	**(49,984)**	(48,333)
Total written down amount	**3,598**	2,404

Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment

Office equipment		
Carrying amount opening balance	**2,404**	2,280
Additions	**2,845**	1,307
Depreciation expense	**(1,651)**	(1,183)
Total written down amount	**3,598**	2,404

7. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

	CONSOLIDATED 2012 $	2011 $
Exploration, evaluation and development costs carried forward		
Pre-production:		
exploration and evaluation phases:		
Carrying amount at 1 July	**9,879,712**	10,129,621
Expenditure during the year	**13,410,027**	836,297
Exploration expenditure written off	**(21,187)**	(3,055)
Recovery of past exploration expenditure *	**(56,592)**	(1,083,151)
Carrying amount at 30 June	**23,211,960**	9,879,712

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

* The Company received reimbursement for past exploration costs during the financial year ended 30 June 2011 with regard to its Kenyan blocks L8, L10A and L10B. For the year ended 30 June 2012, the recoveries relate to ordinary joint venture recharges.

Notes to the Financial Statements

8. TRADE and OTHER PAYABLES (CURRENT)

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Trade creditors	**235,805**	187,740
Total	**235,805**	187,740

9. CONTRIBUTED EQUITY

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
(a) Issued and paid up capital		
Ordinary shares fully paid	**95,132,106**	38,166,253
Total	**95,132,106**	38,166,253

(b) Movements in shares on issue

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

10. RESERVES AND ACCUMULATED LOSSES

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

Notes to the Financial Statements

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

(b) Reconciliation of cash		
Cash balance comprises:		
– cash assets	**47,722,233**	5,710,905
Closing cash balance	**47,722,233**	5,710,905

12. EXPENDITURE COMMITMENTS	CONSOLIDATED	
	2012	2011
	$	$
Capital expenditure commitments		
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:		
not later than one year		
– other	**1,432,795**	460,653
later than one year and not later than five years		
– other	**2,874,288**	3,744,326
later than five years		
Total	**4,307,083**	4,204,979

Notes to the Financial Statements

13. EMPLOYEE BENEFITS

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

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

Options held at the end of the reporting period
The following table summarises information about options held by directors and employees as at 30 June 2012:

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

14. SUBSEQUENT EVENTS

Significant events after balance date include:

12 July 2012 – Kenya L6
In the company's Kenya L6 offshore exploration licence, 3D seismic data was acquired post financial year end. The data acquisition covered a number of prospects, in particular the Kifaru Prospect towards the south of the licence area. Processing and interpretation of the data in the coming months may provide potential prospects for drilling going forward.

19 July 2012 – Namibia EL 0037
The company increased its Namibian acreage by acquiring an additional 10% of co-venturer Paragon Holdings Limited's ("Paragon") interest in the EL 0037 licence. The purchase price of the acquisition was US $4 million, with US $2 million payable immediately and the remaining US $2 million upon the earlier of; 1) Pancontinental farming out an interest in the licence: or 2) six months after the date of the transaction.

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

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

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

Apart from the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Notes to the Financial Statements

15. EARNINGS PER SHARE

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

16. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2012	2011
	$	$
Amounts received or due and receivable by Rothsay for:		
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	**40,500**	45,500
– other services in relation to the entity and any other entity in the consolidated entity	**4,000**	4,000
	44,500	49,500

17. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

Henry David Kennedy	Non-Executive Chairman
Roy Barry Rushworth	Executive Director, Chief Executive Officer
Ernest Anthony Myers	Executive Finance Director
Anthony Robert Frederick Maslin	Non-Executive Director

(ii) Specified Executives

Vesna Petrovic	Company Secretary

Notes to the Financial Statements

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2007 AGM, is not to exceed $400,000 per annum and is set with reference to fees paid to other non-executive directors of comparable companies.

Non-executive and executive directors do not receive performance related remuneration but they are eligible to participate in the Employee Option Scheme approved by shareholders.

Directors do not receive any termination or retirement benefits.

(b) Remuneration of Specified Directors /Officers

		Primary		Post Employment		Equity	Other	Total
	Salary & Fees	**Cash Bonus**	**Non Monetary benefits**	**Superannuation**	**Retirement benefits**	**Options**	**Bonuses**	
Specified Directors/Officers								
Henry David Kennedy								
2012	**50,000**	**-**	**-**	**-**	**-**	**63,726**	**-**	**113,726**
2011	50,000	-	-	-	-	-	-	50,000
Roy Barry Rushworth								
2012	**550,000**	-	**-**	**-**	**-**	**127,453**	**-**	**677,453**
2011	415,833	-	-	-	-	-	-	415,833
Ian Raymond (Inky) Cornelius (Passed away 14 July 2010)								
2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2011	2,000	-	-	-	-	-	-	2,000
Anthony Robert Frederick Maslin								
2012	**48,000**	**-**	**-**	-	**-**	**-**	**-**	**48,000**
2011	25,806	-	-	-	-	-	-	25,806
Ernest Anthony Myers								
2012	**48,000**	**-**	**-**	-	**-**	**-**	**-**	**48,000**
2011	48,000	-	-		-	-	-	48,000
Vesna Petrovic								
2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2011	-	-	-	-	-	-	-	-
Total Remuneration: Specified Directors /Officers								
2012	**696,000**	**-**	**-**	**-**	**-**	**191,179**	**-**	**887,179**
2011	541,639	-	-	-	-	-	-	541,639

Mrs Petrovic received no direct remuneration from the company for her services as company secretary however during the year the company paid fees to Resource Services International (Aust) Pty Limited totalling $289,500 (2011: $238,000) for the provision of corporate, accounting and administration services. Mrs Petrovic is employed by Resource Services International (Aust) Pty Limited. See Note 20 for further information.

Notes to the Financial Statements

(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 11	0.08	0.1275	29 May 12	28 Nov 14
Roy Barry Rushworth	1,500,000	29 Nov 11	0.08	0.1275	29 May 12	28 Nov 14
Anthony Robert Frederick Maslin	-	-	-	-	-	-
Ernest Anthony Myers	-	-	-	-	-	-
Total	**2,250,000**					

(d) Option holdings of specified directors and specified executives

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

(e) Shareholdings of Specified Directors and Specified Executives

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

18. SEGMENT INFORMATION

Segment accounting policies

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

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

19. FINANCIAL INSTRUMENTS

Financial risk management

Overview:

The company and group have exposure to the following risks from their use of financial instruments:

(a) credit risk

(b) liquidity risk

(c) market risk

This note presents information about the company's and group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

(a) Credit risk:

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In this industry, it arises principally from the receivables of joint venture re-charges and recuperations of cost. For the group, it arises from receivables due from subsidiaries and re-charges to joint venture partners.

(i) Trade and other receivables:

The group operates predominantly in the oil and gas exploration sector; it does not have trade receivables and is therefore not exposed to credit risk in relation to trade receivables.

The company's and group's exposure to credit risk is influenced directly and indirectly by the individual characteristics of each joint venture. The balance of any outstanding amounts is monitored and payments are received promptly from joint venture partners.

(ii) Loans to subsidiaries:

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

19. FINANCIAL INSTRUMENTS (cont'd)

Exposure to credit risk

The carrying amount of the company's and group's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Consolidated		**Carrying amount**	
	Note	**2012**	**2011**
		$	**$**
Trade and other receivables	4	**98,582**	44,028
Cash and cash equivalents		**47,722,233**	5,710,905
Total		**47,820,815**	5,754,933

Impairment losses:

None of the company's or group's receivables are past due at 30 June 2012, (2011: nil).

An impairment write down in respect of inter-group loans and shares was recognised during the current year from an analysis of the subsidiaries respective financial positions. The total impairment write down recognised through impairment of loans to subsidiaries and shares held in subsidiaries during the current period was $27,114 (2011: $17,542).

Whilst the loans were not payable at 30 June 2012 a provision for impairment based/reversed on the subsidiaries financial position was carried forward from previous periods. The balance of this provision may vary due to performance of a subsidiary in a given year.

(b) Liquidity risk:

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group manages liquidity risk by maintaining adequate cash reserves through continuously monitoring forecast and actual cash flows.

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk:

The group is exposed to currency risk on investments, and foreign currency denominated purchases in a currency other than the respective functional currencies of group entities, primarily the Australian dollar (AUD). The other material currency that these transactions are denominated in is the (USD).

The group has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency.

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (cont'd)

Exposure to currency risk:

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

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

The following significant exchange rates applied during the year:

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

Sensitivity analysis:

A 10 percent strengthening of the Australian dollar against the USD at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

Effect in AUD	Consolidated	
	Equity	**Profit or loss**
30 June 2012		
10% strengthening	-	-
30 June 2011		
10% strengthening	-	-

A 10 percent weakening of the Australian dollar against the USD at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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

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

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

Fair value sensitivity analysis for fixed rate instruments:

The company and group do not account for any fixed rate financial assets at fair value through profit or loss. Therefore, a change in interest rates at reporting date would not affect profit or loss or equity.

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (cont'd)

Fair values:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

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

The basis for determining fair values is disclosed in note [1].

Capital Management:

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests.

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

There were no changes in the group's approach to capital management during the year.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

20. RELATED PARTY

(a) During the year the company paid fees to Resource Services International Limited, a company in which Mr Kennedy has a financial interest, for consulting services. The amount paid to was $50,000 (2011: $50,000). Refer note 17.

(b) During the year the company paid fees to Resource Services International (Aust) Pty Limited, a company of which Mr Myers is a director, to cover the provision of corporate, accounting and administration services. The amount paid to Resource Services International (Aust) Pty Limited was $289,500 (2011: $238,000). Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The fees are not related to the management of the company, therefore no amounts are attributable to directors, and have not been included in directors' remuneration.

(c) The company has effected Directors and Officers Liability Insurance.

21. PARENT INFORMATION

The Group has applied amendments to the Corporations Act (2001) which remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures below.

AT 30 JUNE 2012

	2012 $	2011 $
STATEMENT OF COMPREHENSIVE INCOME		
Profit/(Loss) for the period	**(1,799,775)**	(914,717)
TOTAL COMPREHENSIVE INCOME/(LOSS)	**(1,799,775)**	(914,717)

	2012 $	2011 $
STATEMENT OF FINANCIAL POSITION		
Assets		
Current assets	**47,017,877**	5,710,905
TOTAL ASSETS	**70,923,805**	15,520,246
Liabilities		
Current liabilities	**232,041**	185,740
TOTAL LIABILITIES	**232,041**	185,740
Equity		
Contributed equity	**95,132,106**	38,166,253
Reserves	**298,956**	764,258
Accumulated losses	**(24,739,298)**	(23,596,005)
TOTAL EQUITY	**70,691,764**	15,334,506

Directors' Declaration

In accordance with a resolution of the directors of Pancontinental Oil & Gas NL, I state that:

(1) In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

ii. complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2012.

On behalf of the Board

Ernest Anthony Myers
Director

Perth 27 September 2012

Independent Audit Report

ROTHSAY

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

Report on the financial report

We have audited the accompanying financial report of Pancontinental Oil & Gas NL (the Company") which comprises the balance sheet as at 30 June 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

Directors Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Chartered Accountants

Independent Audit Report

Audit opinion

In our opinion the financial report of Pancontinental Oil & Gas NL is in accordance with the *Corporations Act 2001*, including:

a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Audit opinion

In our opinion the remuneration report of Pancontinental Oil & Gas NL for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Rothsay

Graham R Swan
Partner

Dated 27 September 2012

Additional ASX Information

Additional information required by the ASX Ltd and not shown elsewhere in this report is as follows. The information is current as at 30 September 2012.

(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	394	88,992
1,001	-	5,000	450	1,647,838
5,001	-	10,000	591	5,032,216
10,001	-	100,000	2,330	99,425,217
100,001		and over	857	1,042,549,833
			4,622	**1,148,744,096**
The number of shareholders holding less than a marketable parcel of shares are:			710	1,066,830

(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	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	162,205,244	14.12
2	SUNDOWNER INTERNATIONAL LTD	132,256,827	11.51
3	JP MORGAN NOMINEES AUSTRALIA LIMITED	120,840,255	10.52
4	CITICORP NOMINEES PTY LIMITED	76,919,785	6.7
5	NATIONAL NOMINEES LIMITED	49,725,091	4.33
6	CM SKYE TRUSTEES LIMITED	26,277,940	2.29
7	DESERTFOX PTY LTD	17,210,485	1.5
8	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	15,497,829	1.35
9	BLUE CAPITAL LIMITED	14,553,334	1.27
10	CS FOURTH NOMINEES PTY LTD	10,552,454	0.92
11	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	10,232,033	0.89
12	ROY BARRY RUSHWORTH	9,057,670	0.79
13	BLUE CAPITAL LIMITED	9,000,000	0.78
14	MR PETER JOHN BRUNTON	7,816,825	0.68
15	MR ROBERT ALBERT BOAS	7,525,000	0.66
16	P & L CAPITAL INVESTMENTS PTY LTD	6,751,094	0.59
17	OLD BLOOD AND GUTS PTY LTD	6,600,000	0.57
18	QUICKSILVER ASSET PTY LTD	6,107,523	0.53
19	MR JAMES DAVID TAYLOR	6,100,000	0.53
20	M & M FAMILY PTY LTD	6,000,000	0.52
		701,229,389	**61.05**

(c) Voting rights

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

Additional ASX Information

(d) Substantial Shareholders

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

	Number of Shares
Sundowner International Limited, Indago Resources Limited and HSBC Custody Nominees	118,499,351
Roy Barry Rushworth and CM Skye Trustees Limited as trustee for the Mulberry Trust	34,764,181

(e) Permit Schedule

Permits and Licence Interests	Permit reference	Interest
Petroleum prospects		
Western Australia	L15	12 %
	EP 104 (R1)	10 %
	EP 110	38.462%
	EP 424	38.462%
Kenya	L6	40%
	L8	15%
	L10A	15%
	L10B	15%
Namibia	EL 0037	95%

PANCONTINENTAL

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