Pancontinental Oil & Gas NL

ACN 003 029 543

Financial Report

for the

Half-Year ended 31 December 2008

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2008 and any public announcements made by Pancontinental Oil & Gas NL during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

PANCONTINENTAL OIL & GAS NL
ACN 003 029 543

Directors' Report

The Directors present their Report on the consolidated entity consisting of Pancontinental Oil & Gas NL and the entities it controlled at the end of or during the Half-Year ended 31 December 2008.

The names and particulars of Directors of the Company during the whole of the half-year and up to the date of this Report are:

Name	**Particulars**
Henry David Kennedy Geologist and Company Director with extensive commercial experience in resource companies. Appointed 31 August 1999	Chairman
Roy Barry Rushworth Extensive involvement in the oil and gas exploration industry. Appointed 10 August 2005	New Ventures Director
Ian Raymond Cornelius Has had many years experience in the exploration and resources industry and success in the exploitation and development of deposits. Appointed 15 October 1992	Non-Executive Director
Ernest Anthony Myers (appointed) Certified Practicing Accountant with over 30 years management and administration experience in the resources industry. Appointed 5 January 2009	Finance Director Company Secretary
Peter Lawson Munachen (retired) Chartered Accountant with extensive experience, mainly in the minerals and oil industry. Director of a number of listed public companies. Appointed 27 February 1991 Retired 5 January 2009	

Review and Results of Operations

The review of the Company's operations during the Half-Year ended 31 December 2008 is as follows.

Financial

	Segment Revenue	Segment Result
	$	$
Oil and gas exploration		
Interest	8,651	8,651
Other revenue	139,693	139,693
Unallocated expenses		(5,303,258)
Operating profit (loss)		(5,154,914)
Income Tax		-
Operating profit (loss) for Half-Year		(5,154,914)

Review of Operations

HIGHLIGHTS

- **EP 104 onshore Canning Basin – Stokes Bay 1 Testing resumed October / November 2008, but no definitive formation fluids yet recovered**
- **Kenya L8 – six months' extension granted to complete current Exploration Period. Planning for future exploration, including 3D seismic over Mbawa Prospect**
- **Namibia offshore RL1 / 2007- Pancontinental seeking to convert part of Reconnaissance Licence to a Petroleum Agreement.**

INTERNATIONAL PROJECTS

KENYA

OFFSHORE BLOCK L8

Pancontinental Oil & Gas NL - 50%, reducing to 25%

Planning continued for activities in the forthcoming period, commencing 22 January 2009, including a 3D seismic survey designed to 'firm up' existing prospects for drilling.

The Joint Venture has matured the large Mbawa Prospect in the L8 licence area and this will be the principal focus of the future programme. This Prospect has a trap potential in Tertiary/Cretaceous reservoirs in excess of 5 Billion Barrels (Billion Bbls) of oil or 7 Trillion Cubic Feet (Tcf) of gas. Seismic over the prospect shows an interpreted "Amplitude Versus Offset" anomaly (AVO), consistent with the possible presence of gas over a possible liquid hydrocarbon phase and other recent studies have interpreted light oil or condensate slicks on the sea surface over the crestal and flanking locations of the Prospect. Potential Jurassic aged reservoir objectives are also mapped in a larger structural closure below the interpreted Tertiary/Cretaceous trap.

The Mbawa structure remains an exploration prospect and will need to be drilled to establish the presence of hydrocarbons or otherwise.

Origin is actively seeking other companies to 'farmin' for 3D seismic and drilling.

Under the farmin agreement between Pancontinental and Origin, Pancontinental is free carried through the next phase of exploration. Pancontinental and Origin have discussed variations to the Origin farmin, with the aim of enhancing and carrying forward the next phase of the exploration programme.

OFFSHORE / ONSHORE BLOCK L6

Pancontinental Oil & Gas NL - 40%

The joint venture continued with studies and planning for future activities including firming-up a target for drilling.

It is anticipated that onshore 2D seismic will be acquired during the next permit year over prospects identified from existing seismic data.

Economic studies were carried out to determine the comparable economic benefits of any discover the prospects and leads mapped from seismic, aerogravity and aeromagnetic surveys.

MALTA

OFFSHORE AREA 5; AREA 4, BLOCK 3

Pancontinental Oil & Gas NL - 80%

Activity over the area is currently suspended, pending discussions between Malta and neighbouring countries.

The company remains confident that the main prospects and leads identified and mapped by Pancontinental have very significant exploration potential. These are in the same geological province as the very large oil and gas fields offshore Libya and Tunisia.

NAMIBIA

RECONNAISSANCE LICENSE RL 1 / 2007, OFFSHORE WALVIS BASIN

Pancontinental Oil & Gas NL - 100%

Pancontinental has applied for a Petroleum Agreement and Exploration Licence (“PA and EL”) over part of the area of the then existing Reconnaissance Licence. Any PA and EL is subject to negotiations with the Ministry.

During the quarter, Pancontinental was notified of the withdrawal of Key Petroleum from the project. Pancontinental now plans to move forward with 100% of the project.

Communications continued with the Ministry of Mines and Energy of Namibia.

MOROCCO

MEDITERRANEE EST BLOCK (Application), OFFSHORE MOROCCO, MEDITERRANEAN SEA

Pancontinental Oil & Gas NL - 100% (diluting to 80%)

The Joint Venture is awaiting the formal issue of the Reconnaissance Licence by the Minister. There has been no progress since the last report.

AUSTRALIAN PROJECTS

EP 104 / R1 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL - 10%

During the half-year, Stokes Bay 1 was initially inspected and opened to assist in the design of a definitive testing programme. Upon installation of the well head, the well head pressure was 1,200psi. On opening, the well flowed gas for approximately six minutes before slugging mud and gas with flow ceasing after some 30 minutes. After an overnight shut-in the wellhead pressure was 250 psi with no significant flow. These results were very encouraging with the gas flowing either from the Laurel gas sands below the 7 inch casing shoe or from the Nullara reef section.

Subsequently, commencing in October, another round of testing was completed on Stokes Bay 1. The testing programme included circulation of freshwater and injection of nitrogen into the wellbore in an attempt to lift sufficient lost drilling fluid (mud) to induce the flow of formation fluid from the cavernous Nullara Limestone.

Testing recovered an additional 190 Barrels of mud, leaving about 7,000 Barrels not yet recovered. Some gas was seen at the wellhead, but definitive formation fluids have still not been recovered from the well.

Stokes Bay 1 was drilled in late 2007. While trying to control the lost circulation in cavernous and vugular porosity in the Nullara Limestone, the well intermittently flowed into the well bore and a gas peak of 3,816 units was recorded (being mud gas peaks of up to 10%).

Interpretation of well pressure data indicates a Nullara reservoir pressure up to 140 psi above the regional water gradient. This could be indicative of a hydrocarbon column, although other interpretations are possible. The anomalous pressure is from a zone over 80m higher than a zone which flowed 0.134 Mmcfd gas with some minor oil shows in Point Torment 1, 4.5 Km to the southeast.

If there is closure of the cavernous trend around Stokes Bay 1 it could be in the order of some 7 sq km based on current mapping, but could extend over a much larger area. Operator Buru interprets the areal closure has the potential to be up to 17 sq km. The actual areal and vertical extent of a hydrocarbon accumulation (if any) can only be determined by further work, including further testing.

Other methods will now be evaluated to successfully test the well, determine whether hydrocarbons are present and determine the extent of the reservoir. It is anticipated that testing will resume in 2009, after the end of current wet season.

Studies carried out by the operator Arc on behalf of the joint venture have identified geological trends which could be followed in the event of testing success in Stokes Bay 1.

EP 424 OFFSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL - 25%

The EP424 Operator continues to await a formal response from the regulatory authority to requested variations to the permit conditions.

The Operator is seeking to extend the joint venture's interest in the Baniyas Prospect to include the neighbouring acreage and is planning to seek a farminee for drilling an exploration well on Baniyas.

“Amplitude Versus Offset” (AVO) seismic analysis over the Baniyas Prospect shows a seismic anomaly which could indicate the presence of gas-over-oil or gas-over-water in the prospect, although other interpretations (including rock property changes) cannot be ruled out as a factor which may be responsible for the anomaly.

The Baniyas prospect is on-trend to the Roller, Saladin and Skate oil fields in the neighbouring permit areas. Baniyas is estimated to have potential for 44 Million Barrels (MmBbls) oil recoverable and more than 100 Billion Cubic Feet (Bcf) recoverable gas. These potential reserves are of a speculative nature until the prospect has been evaluated by drilling.

EP 110 ONSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL - 25%

This permit is operated in conjunction with EP- 424. The parties in EP-110 have identical equities to those in permit EP-424. There were no developments this quarter.

EP 406 OFFSHORE SHARK BAY, CARNARVON BASIN

Pancontinental Oil & Gas NL - 5%

Permission is awaited to explore this area, which is subject to a Marine Park and World Heritage Listing.

Changes In State Of Affairs

During the Half-Year ended 31 December 2008 there was no significant change in the entity's state of affairs other than that referred to in the Half-Year Financial Statements or Notes thereto.

Directors' Report (continued)

The Directors
Pancontinental Oil & Gas NL
288 Stirling St
Perth WA 6000

Dear Sirs,

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 review of the 31 December 2008 half yearly financial statements; and

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

Frank Vrachas (Lead auditor)

Rothsay Chartered Accountants
16 March 2009

This Report is made in accordance with a Resolution of the Directors.

E A Myers
Director
PERTH, 16th day of March 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PANCONTINENTAL OIL & GAS NL

Independent Review Report to the Members of Pancontinental Oil & Gas NL

The financial report and directors' responsibility
The interim consolidated financial report comprises the balance sheet, income statement, statement of changes in equity, cashflow statement, accompanying notes to the financial statements, and the directors' declaration for Pancontinental Oil & Gas NL for the half-year ended 31 December 2008.

The Company's directors are responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting 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.

Review approach
We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim consolidated financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated financial position as at 31 December 2008 and the performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Pancontinental Oil & Gas NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Independence
In conducting our review we have complied with the independence requirements of the Corporations Act 2001.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim consolidated financial report of Pancontinental Oil & Gas NL is not in accordance with the Corporations Act 2001, including:

• giving a true and fair view of the consolidated financial position as at 31 December 2008 and of the performance for the half-year ended on that date; and

• complying with Australian Accounting Standard AASB134 Interim Financial Reporting and the Corporations Regulations 2001.

Rothsay

Frank Vrachas
Partner

Dated 16 March 2009

PANCONTINENTAL OIL & GAS NL
ACN 003 029 543

Directors' Declaration
For The Half-Year Ended 31 December 2008

The Directors declare that:

(a) 'The attached Financial Statements and Notes thereto comply with Accounting Standards;

(b) 'The attached Financial Statements and Notes thereto give a true and fair view of the financial position and performance of the consolidated entity;

(c) 'In the Directors' opinion, the attached Financial Statements and Notes thereto are in accordance with the Corporations Act, 2001; and

(d) 'In the Directors' opinion, for the reasons set out in note 1, there are reasonable grounds to believe that Pancontinental Oil & Gas NL will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a Resolution of the Directors pursuant to section 303(5) of the Corporations Act, 2001.

On behalf of the Directors

E A Myers
Director
PERTH, 16th day of March 2009

PANCONTINENTAL OIL & GAS NL

Condensed Consolidated INCOME STATEMENT
For The Half-Year Ended 31 December 2008

	Note	Half-Year ended 31-Dec-08	Half-Year ended 31-Dec-07
Revenue from Ordinary Activities		**$**	**$**
Interest received – other		8,651	50,544
Other income		139,693	71,180
Total revenues from ordinary		**148,344**	**121,724**
Depreciation		(1,961)	(5,042)
Salaries and employee benefits		(2,822)	(141,851)
Director remuneration and benefits		(149,998)	(531,912)
Audit fees		(17,800)	(17,500)
Exploration costs written off		(4,581,049)	-
Generative exploration expenditure		(8,281)	(4,737)
Annual report costs		(20,731)	(22,242)
ASX fees		(18,092)	(21,425)
Administration, accounting and		(393,238)	(144,728)
Insurance		954	(1,591)
Legal fees		(29,258)	(6,595)
Share registry costs		(8,910)	(19,432)
Rent and outgoings		(37,895)	(23,117)
Travel		(34,177)	(3,840)
LOSS BEFORE INCOME TAX		**(5,154,914)**	**(822,288)**
Income Tax Expense		-	-
Loss attributable to members of		**(5,154,914)**	**(822,288)**
Basic loss per share (cents per share)		(1.1590)	(0.0019)
	5		
Diluted loss per share (cents per share)		(1.1590)	(0.0019)

The above Consolidated Income Statement should be read in conjunction with the accompanying Notes.

PANCONTINENTAL OIL & GAS NL

Condensed Consolidated BALANCE SHEET
As at 31 December 2008

	Note	Half-Year ended 31-Dec-08 $	Annual Report 30-Jun-07 $
Current Assets			
Cash and cash equivalents	3	573,691	1,247,879
Trade and other receivables		41,180	38,439
Total Current Assets		**614,871**	**1,286,318**
Non-Current Assets			
Plant and equipment		1,939	3,901
Deferred exploration and evaluation expenditure		9,768,641	14,102,254
Total Non-Current Assets		**9,770,580**	**14,106,155**
Total Assets		**10,385,451**	**15,392,473**
Current Liabilities			
Trade and other payables		203,140	113,999
Total Current Liabilities		**203,140**	**113,999**
Total Liabilities		**203,140**	**113,999**
Net Assets		**10,182,311**	**15,278,474**
Equity			
Contributed equity	4	29,556,746	29,556,746
Reserves		1,256,527	1,281,102
Accumulated losses	2	(20,630,962)	(15,559,374)
Total Equity		**10,182,311**	**15,278,474**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

PANCONTINENTAL OIL & GAS NL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2008

	Half-year ended 31-Dec-08 $	Half-year ended 31-Dec-07 $
Total equity at the beginning of the half-year	15,278,474	12,769,735
Total recognised income and expense for the half-year attributable to members of Pancontinental Oil & Gas NL	(5,154,914)	(822,288)
Transactions with equity holders in their capacity as equity holders (options vesting and expiring)	(24,576)	244,419
Adjustments to retained earnings (options)	83,327	77,761
Contributions of equity	-	3,657,339
Total equity at the end of the half-year	**10,182,311**	**12,269,627**

The above Consolidated Statement of Changes in Equity should be read in conjuction with the accompanying notes.

PANCONTINENTAL OIL & GAS NL

Consolidated Statements of CASH FLOWS
For The Half-Year Ended 31 December 2008

	Half-Year ended 31-Dec-08 $	Half-Year ended 31-Dec-07 $
Cash Flows from Operating		
Payments to suppliers and employees	(508,595)	(380,034)
Interest received	8,651	50,544
Net cash from operating activities	**(499,944)**	**(329,490)**
Cash Flows from Investing		
Acquisition of plant & equipment		
Exploration expenditure	(241,671)	(2,196,615)
Net cash from investing activities	**(241,671)**	**(2,196,615)**
Cash Flows from Financing		
Issue of shares	-	2,988,595
Net cash from investing activities	**-**	**2,988,595**
Net Increase (Decrease) In Cash and Cash Equivalents	(741,615)	462,490
Cash and Cash Equivalents at beginning of Half-Year 1 July 2008	1,247,879	1,810,960
Effect of exchange rate fluctuations on cash held	67,427	15,218
Cash and Cash Equivalents at end Of Half-Year 31 December 2008	**573,691**	**2,288,668**

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes.

NOTES to the Financial Statements
For the Half-Year ended 31 December 2008

1. **Basis of Preparation of Half-Year Financial Statements**

This general purpose financial report for the Half-Year ended 31 December 2008 has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting. This Half-Year Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2008 and public announcements made by Pancontinental Oil & Gas NL during the Half-Year in accordance with any continuous disclosure obligations arising under the Corporations Act, 2001.

The accounting policies have been consistently applied to all the periods presented, unless otherwise stated

Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising 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 company has control.

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

Cash

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Taxation

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

Impairment of Assets

The recoverable amount of an asset is determined as the higher of net selling price and value in use.

Plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses (the cost method). The fair value of plant and equipment, as determined by reference to observable prices, is not materially different to the carrying amount.

Capitalisation of Exploration and Evaluation Costs

The Company complies with AASB 6 *Exploration for and Evaluation of Mineral Resources*. Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow reasonable assessment regarding the existence of economically recoverable reserves.

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

NOTES to the Financial Statements
For the Half-Year ended 31 December 2008

1. **Basis of Preparation of Half-Year Financial Statements Continued**

Going Concern

The Group's cash flow forecasts and assumptions for the year ending 31 December 2009 show the Group's ability to continue to meet its debts as and when they fall due and thus continue to prepare its financial statements on a going concern basis, is primarily dependant upon the achievement of the following:

1. reducing corporate and overhead costs;
2. raising additional cash through an equity issue; and
3. sale or farmout of one or more of the Group's projects

should the Group be unable to achieve the matters set out above, the Group will require additional working capital to enable it to meet its debts as and when they fall due.

Other Changes in Accounting Policy

Since 1 July 2008 the Group has adopted the following Standards and Interperetations, mandatory for annual periods beginning on or after 1 July 2008. Adoption of these standards and Interperetations did not have any effect on the financial position or performance of the Group.

- AASB 8 Operating Statements
- AASB 101 Revised Presentation of Financial Statements

The following amending standards have also been adopted from 1 July 2008:

- AASB 2007-3 Amendments to Australia Accounting Standards arising from AASB 8
- AASB 2008-1 Amendments to Australian Accounting Standards Share-based payments: Vesting conditions and cancellations

AASB 2008-3 These amendments are consequential amendments to 20 standards and have no significant effect for the Group

AASB 2008-5 and 2008-6 Amendments to Australian Accounting Standards arising from the Annual Improvements Projects

The Group has elected not to early adopt any of the new standards or amendments.

PANCONTINENTAL OIL & GAS NL

NOTES to the Financial Statements
For the Half-Year ended 31 December 2008

2. Accumulated Losses

	Half-year ended 31-Dec-08 $	Half-year ended 31-Dec-07 $
Loss from ordinary activities after related income tax expense	(5,154,914)	(822,288)
Accumulated profits (losses) brought forward	(15,559,374)	(14,063,471)
Adjustment from options expired	83,327	77,761
Accumulated profits (losses) at end of half-year	**(20,630,961)**	**(14,807,998)**

3. Reconciliation of cash

Cash at the end of the Half-Year as shown in the Statements of Cash Flows is reconciled to the related items in the Financial Statements as follows:	Half-Year ended 31/12/2008 $	Half-Year ended 31/12/2007 $
Cash on hand and at bank	573,691	2,288,668
Cash and Equivalents at 31 December 2008	**573,691**	**2,288,668**

4. Issued and quoted securities at end of current Half-Year

Category of Securities	Number Issued	Number Quoted	Exercise	Expiry
Ordinary Shares:	444,770,113	444,770,113		
Issued during Half Year ended 31 December 2008:				
nil issued	-	-		
	444,770,113	**444,770,113**		
Options:				
	1,100,000	-	$0.15	21 Nov 09
	2,875,000	-	$0.15	28 Nov 09
	9,500,000	-	$0.09	28 Nov 10
	9,250,000	-	$0.10	28 Nov 11
	4,500,000	-	$0.06	28 Nov 12
	27,225,000	**-**		

5. **Earnings per share**

	Half-Year ended 31-Dec-08	Half-Year ended 31-Dec-07
Basic earnings per share - cents	(1.1590)	(0.0019)
Diluted earnings per share is not materially different from Basic earnings per share	(1.1590)	(0.0019)
The weighted average number of ordinary shares outstanding during the Half-Year used in the calculation of basic earnings per share	444,770,113	440,421,636

6. **Segmental information**

The Company operates only in Australian, African and Mediterranean regions.

7. **Subsequent Events**

No matters or circumstances have arisen since the end of the Half-Year which significantly affected or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company as reported to the Half-Year ended 31 December 2008.

8 **Commitments for Expenditure (Contingent Liability)**
Oil Leases and Permits

In order to maintain current rights of tenure to permits, the Company is required to perform mimimum expenditure requirements of various authorities and pay fees. The Company may be required to outlay an amount of approximately $108,000 in the first half of 2009 with respect to permit lease rentals and exploration expenditures to meet these minimum expenditure requirements. The balance of these obligations will be fulfilled in the normal course of operations, which may include farm-out, joint venture and direct exploration expenditure.