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Continental Energy Corporation**OTC BB: CPPXF**

CURRENT PRICE: \$0.36

52-WEEK RANGE: \$0.02 - \$0.45

AVERAGE DAILY VOLUME (90-DAY): 58,862

FLOAT: 48.3 million

OUTSTANDING SHARES: 57.0 million

MARKET CAPITALIZATION: \$20.5 million

CONTINUING COVERAGE: SPECULATIVE BUY**COMPANY PROFILE**

Continental Energy Corp. (www.continentalenergy.com) (Continental or the "Company") is a Dallas, Texas based independent oil and gas exploration company focused on large commercial discoveries in Indonesia. Its current prospect inventory is in the prolific Bengara-II Block, which is known for still unexploited oil and gas reserves. The Company recently signed an agreement with CNPCHK (Indonesia) Limited (CNPCL) to develop Bengara-II Block. CNPCL is a wholly owned subsidiary of Hong Kong listed China National Petroleum Company (Hong Kong) Limited. CNPCL has acquired 70% of the Bengara-II project and together with its partners Continental and GeoPetro Resources Company (GeoPetro) has exclusive petroleum exploration and production rights to this nine hundred thousand-acre block, located in East Kalimantan, Indonesia. The East Kalimantan region (together with Aceh, Irian Jaya, Java and Sumatra) is one of the primary oil rich areas in Indonesia and currently has several oil producing basins. The Bengara-II is located in the Tarakan Basin. Continental is a Canadian issuer listed on the OTC Bulletin Board and is trading under the symbol CPPXF.

Indonesia is a member of the Organization of Petroleum Exporting Countries (OPEC), the only Southeast Asian country to have membership in the oil cartel. In 2005, Indonesia produced 1.07 bbls/d of oil accounting for 3% of total OPEC production and just over 1% of global production. Indonesia's oil production is however below the OPEC permitted production. In fact, this is one of the main reasons that prompted Indonesian authorities to embark on private sector participation in developing the country's petroleum resources. Despite the relatively volatile and risky political environment as well as generally mature oil fields, Indonesia continues to attract investments from foreign companies to develop its oil resources. High oil prices (which make exploration and development worthwhile) and its proximity to fast growing Chinese and Indian economies are viewed as the main reasons behind the continued interest. The industry further benefits from its ongoing reforms instigated by the Indonesian government. Continental benefits from these reforms with favorable contract terms as well as the assurance of minimum state interference.

CORPORATE STRATEGY

Continental's corporate strategy is to identify oil and gas exploration and development projects in appropriate regions that fit its technical and economic criteria. Once delineated and developed, the Company plans to be engaged in production as well. Continental plans to build its

core business in Indonesia and first develop its existing license areas prior to embarking on other opportunities in the region. Continental's has a relatively more flexible corporate strategy compared to other junior oil and gas companies engaged in exploration and development. The latter's business model entails exploration and development of prospects to drill-ready stage and then selling them potentially at a premium to a larger company for subsequent production. Continental meanwhile intends to undertake both development and production, through a farm-out strategy partnering with CNPCL.

Continental's strategy of development followed by the continued involvement in production resonates well with its management track record. The management team has previously worked together and has extensive international oil and gas experience in a number of projects within both developing and developed countries, particularly in Indonesia. They have been involved not only in exploration but also in subsequent production and operations. Companies the senior management has collectively or individually developed include Mobil Oil, Phillips Petroleum, Amoco and Jackson Exploration Inc.

As a part of its corporate strategy, Continental intends to develop its prospects through joint venture partnerships rather than on its own. This strategy is expected to minimize the required resource commitment and exposure to exploration risk. Such partnerships also provide added strength in competing with other oil companies with deep pockets operating in the region. We are encouraged by this prudent strategy as it reduces the risk profile of the Company considerably.

To this end, Continental has already formed CG Xploration Inc., as a 50/50 partnership with GeoPetro Resources Company (GeoPetro), to undertake exploration elsewhere in the Tarakan basin. GeoPetro is an independent oil and gas company headquartered in San Francisco, California with projects in North America, Australia, and Indonesia.

The agreement with CNPCL is a very significant development as it further reduces the risk profile of the Company. It also provides funds to finance the development program. The agreement is in line with Continental's original strategy of farming out drill ready prospects to larger companies. Continental has identified 22 drillable prospects and a further two leads within the Bengara Block. This is an unusually high number and is a good indicator of petroleum potential in this region. Many of these prospects are ready to be drilled. The Company has already obtained the necessary approvals for its 2006-2007 drilling program. CNPCL has agreed to drill Continental's top

four prospects in the oil prone southern part of the Bengara-II Block.

Continental has also formed another fully owned subsidiary, TXX Energy Corporation (TXX) to pursue oil and gas exploration and production projects and obtain new exploration leases in the USA. The focus of TXX is to diversify the asset base and establish a presence in oil and gas sector in the USA. The Company is currently evaluating several opportunities in Texas that fit its risk/reward criteria and would provide revenues near-term.

The Company has already identified several interesting properties in the USA and Indonesia and is currently discussing acquisition funding with institutional sources. Continental growth strategy is expected to be both organic and acquisitions. The Company has also engaged oil and gas professionals with long operating experience in Texas to assist its exploration and acquisition endeavors.

FINANCIALS AND OUTLOOK

Continental is yet to commence commercial production and therefore has no reported revenue. This is a common phenomenon amongst development stage exploration companies. Important factors to consider in evaluating exploration companies are the burn rate, capital structure (existence of debt) and contingent liabilities. *Continental is incorporated in Canada and has a foreign issuer status with the Securities and Exchange Commission (SEC).* The Company's continued existence as a going concern is dependent upon the future economic success of its exploration and development activities, the Company's ability to continue to secure adequate financing and achieve a positive cash flow and profitable operations.

During the nine months ended April 30, 2006, the Company continued to have no revenue. During this period, the Company improved its working capital position of approximately \$2.5 million compared to a deficit of \$39,000 as of July 31, 2005. The increase is due to the \$3.6 million gain on the sale of Yapen subsidiary. During the same period the Company's operating costs increased by 37% to just over \$820K. Based on the operating cost for the nine-month period, the Company's monthly burn rate is approximately \$90,000. Based on the cash assets at the end of April, the Company has adequate cash to fund its operations through year-end 2007. The Company used \$822,711 for operating activities during the nine months ended April 30, 2006 compared to \$600,876 in the nine months ended April 30, 2005 (up 37%) reflecting its ongoing development activities. During the quarter ended

April 30, 2006, the Company used \$622,995 as compared with \$433,127 in the same fiscal quarter in the prior year.

With the arrangement with CNPC upon the 70% sale of its subsidiary, Continental appears to be in a sound financial footing. While CNPC will undertake the development of Bengara-II, we expect further issue of equity to finance any new property acquisitions.

Continental's operations remain primarily equity financed. In April 2005, the company raised \$500,000 through a private placement of 3,333,334 shares at a price \$0.15/unit to fund its working capital. The Company intends to continue its strategy of pursuing equity financing to meet future expansion needs and working capital.

In fiscal 2004, the Company paid off the entire principal and a portion of the interest on a promissory note due in July 2005. The balance of the interest component (\$50,000) was carried as a current liability for the fiscal year ended July 31, 2005, and no further interest charges will be incurred on this amount. Consequently the Company has no long-term debt on its balance sheet and is not expected to take on any in the near term. Continental does not have any contingent liabilities at the present time.

Continental can be viewed as an investment opportunity that provides speculative exposure to the oil and gas sector in Indonesia. As much of its main fields mature, future Indonesian oil output is expected to come from smaller oil fields. Economics of smaller fields generally suit smaller companies with lean cost structures, as they can remain profitable even with a relatively lower production. Continental represents the new generation of oil and gas companies in Indonesia.

We are continuing Continental coverage with a positive rating. Its properties are flanked by producing fields. The Company benefits from Indonesia's interest in developing its petroleum reserves, which are expected to be predominantly in partnership with foreign companies. Investment rewards however would heavily depend on drill results by CNPC and subsequent acquisitions. A confirmation of reserve potential backed by adequate geological data and results would prove to be an important factor, as is the key for any exploration company. Furthermore any announcement on future funding will be a positive milestone particularly if the capital structure includes some institutional ownership.

Sam Kiri, CFA

Alan Stone, Managing Director

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