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5 January 2004

Company Announcements Office
Australian Stock Exchange Limited
(via ASX online)

Pancontinental signs MoU to explore Offshore Eritrea.

Pancontinental Oil & Gas NL (Pancontinental) is pleased to announce that it has signed a Memorandum of Understanding (MOU) with the Government of Eritrea over the 11,550 sq km Massawa Block offshore Eritrea, Red Sea. Pancontinental has been joined by Afrex Limited (Afrex) and Hardman Resources Limited (Hardman) in this venture.

The MOU covers the principal terms negotiated over the last 12 months with the Government for a Production Sharing Contract (PSC) over the Massawa Block.

Subject to the Production Sharing Contract (PSC) being finalised over the next six months, the joint venture has the exclusive rights to explore for hydrocarbons in the Massawa Block for up to 7 years.

The interests in the joint venture are:-

Afrex	40%, (Operator)
Pancontinental	30%,
Hardman	30%.

The Massawa Block lies in the salt basin of the southern Red Sea. Salt basins are amongst the most prolific oil producing areas in the world. Other prolific oil bearing salt basins include the Gulf Coast province of the Gulf of Mexico, offshore Angola in West Africa and more recently offshore Mauritania, where Woodside and Hardman have made significant commercial oil and gas discoveries.

To the north of the Massawa Block in offshore Egypt, a large number of commercial oil and gas fields have been discovered over the past 20 years. These are supported by a sophisticated production and transport infrastructure.

Closer to the Massawa Block an exploration well drilled to the north in Eritrean waters "blew-out" with large volumes of gas flowing uncontrolled to the surface. It is believed that an appraisal of this discovery is planned by another operator in the near future.

Within the Massawa Block itself, oil has already been seen in a number of surface oil seeps in the Dahlak Islands (see attached map).

In the Massawa Block and surrounding areas major multinational oil companies have previously identified a number of large, seismically defined, salt related prospects. The joint venture will assess these prospects as potential drilling targets.

The exploration programme in the Massawa Block will commence with re-mapping of the existing seismic data and seismic reprocessing (if necessary) followed by the acquisition of new seismic data. The joint venture will then consider inviting farminees to earn equity in the Block by drilling one or more exploration wells.

Pancontinental CEO, Andrew Svalbe commented -

“The Massawa Block is an exciting new addition to Pancontinental’s highly prospective African exploration portfolio.

Like the existing permits offshore Kenya and Malta, the Eritrean Massawa Block meets the Company’s criteria of good Geology, good Government, good Terms and good Markets.

Eritrea has no indigenous hydrocarbon production. Much of the earlier exploration work in this very interesting petroleum province was curtailed by a protracted and now settled Eritrean/Ethiopian border conflict.

Mining companies associated with Pancontinental are carrying out mineral exploration activities onshore Eritrea and have established an excellent working relationship with the reputable, energetic and professional Ministry and Government. The Government is keen to advance the country’s economy by promoting the development of energy resources following the cessation of hostilities 3 years ago.”

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It is advised in accordance with Australian Stock Exchange Limited Listing Rule 5.11 that the report on the above project has been prepared by Mr. Andrew Svalbe, AAPG, PESA, ASEG, FESWA who has had more than the required five years experience and is a competent person as defined in the Listing Rules of Australian Stock Exchange Limited and has consented in writing to the inclusion of this report as it appears here

