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23 February 2005

Company Announcements Office
Australian Stock Exchange Limited

- **Pancontinental acquisition of Afrex to proceed - increasing interest in African projects by 150%**
- **Pro-rata share issue to raise up to \$2.9 million to fund expanded operations**

The Directors of Pancontinental Oil & Gas NL (“Pancon”) are pleased to announce that the Company has reached an “in principle” agreement with the shareholders of Afrex Limited (“Afrex”) for the acquisition by Pancon of Afrex, to proceed on revised terms. The previous agreement reached in November 2004 was aborted earlier this year when the Eritrean Government advised Afrex and Pancon that the MOU/draft PSC for the offshore Massawa Block was “null and void”.

Under the new arrangement Pancon will acquire all of the issued capital of Afrex for a maximum consideration of A\$11.305 million to be satisfied by the issue of up to 142,058,306 ordinary fully paid shares to Afrex shareholders as consideration for their shareholdings in Afrex. Pancon has also agreed to pay a royalty of 2% in respect to applications in the “pipeline” to the Afrex shareholders. Furthermore Pancon will reimburse agreed joint venture project costs of up to \$500,000 to Afrex. These costs are expected to be recovered under farm-out agreements.

The transaction is subject to regulatory and shareholder approval, and execution of binding agreements.

To fund the company’s expanded operations it plans to raise up to \$2.9m by way of a non-renounceable share offer to all shareholders. 41.8 million shares will be offered on a one for four basis at an issue price of \$0.07 (7cents) per share. The issue will not be underwritten however the directors will have the right to place the shortfall within three months of the close of the issue. A prospectus is currently being prepared and a record date/timetable will be advised to ASX in due course.

Pancon is currently in joint venture with Afrex in a number of African projects (see below) in which the ratios are 40% Pancon and 60% Afrex, of the interests not held by other parties. The acquisition will result in Pancon increasing its equity by 150% and holding the combined interest of both parties.

The November agreement would have resulted in Afrex shareholders being issued up to 165,000,000 shares for a maximum value of A19.8m of which “Eritrea” represented a significant proportion (81,180,000 million shares). The November agreement was based on the valuation of Mulready Consulting Services Pty Ltd (“Mulready”) that was completed in September 04. Since that time the interpretation of the Malta seismic data has been completed and there has been the withdrawal of Eritrea. In addition there has been currency fluctuations between the US\$/A\$. As a consequence Mulready has reviewed the previous valuation to take into account the impact of these changes and concluded as follows:

Project	Value-Afrex Interest	Comments - Previous
Kenya	A\$9,900,000	Previous – A\$11,000,000. Change due to currency fluctuation from US\$0.069 to US\$0.77
Malta	A\$2,500,000	Previous – A\$900,000. Increase due to positive interpretation of Malta seismic and farmout potential
Morocco	A\$900,000	No change
Total value Afrex interests	A\$13,300,000	

The new arrangement with Afrex shareholders is based on the above valuation and discounted by 15% to A\$11,305,000 and a share price of \$0.795 (the average share price from 14 Jan 05 to 14 Feb 05) has been applied to establish the maximum number of shares of 142,058,306 to be issued in satisfaction of the consideration.

Subject to shareholder approval the shares will be issued on a progressive basis as various milestones are achieved, viz;

Project	Issue of shares on approval by S/holders	Issue of shares on farm-out of Kenya/Malta	Issue of shares upon issue of RL Morocco	Total to be issued
Kenya	94,610,832	10,512,315		105,123,147
Malta	24,291,970	2,699,108		26,991,078
Morocco	994,408		8,949,673	9,944,081
	119,897,211	13,211,423	8,949,673	142,058,306

The Afrex/Pancon joint venture has either made applications or expressions of interest to a number of governments and other parties in respect to additional projects. The status of these “pipeline” projects is such that a value cannot be ascribed, however if these applications/expressions of interest, result in the granting of licences that eventually have commercial discoveries of hydrocarbons, then it has been agreed that the shareholders of Afrex will receive a 2% overriding royalty (ORR) (“Afrex royalty”). The Afrex royalty will

be applicable to the portion of Afrex's share of "cost oil" and "profit oil" from "pipeline" projects to which Afrex would have been entitled had it not been acquired by Pancon.

The arrangement also provides that upon approval by shareholders of the transaction, Pancon will re-imburse Afrex, its share of agreed joint project costs up to a maximum of A\$500,000 incurred between 1st January 2005 and the date shareholder approval is obtained. These costs relate to annual government charges and guarantees with respect to the Kenya and Malta projects and are expected to be recovered under farm-out agreements.

After all shares are issued under the proposed transaction and following the pro-rata issue to shareholders, the issued capital of the Company will increase from 167,266,166 shares to up to 351,141,013 shares.

The issue of the shares to acquire Afrex is conditional upon receipt of ASX, regulatory and shareholder approvals. Following the necessary approvals, interests associated with Pancon Chairman Mr HD Kennedy, will receive 109,126,349 shares of the total of up to 142,058,306 shares to be issued to Afrex shareholders. This will result in Mr Kennedy's interest in Pancon increasing from 26,865,164 to 135,991,513 shares, representing approximately 39% of the expanded capital (after taking into account any changes resulting from the proposed pro-rata issue). The new shares to be issued to Mr Kennedy's interests will be escrowed for a period of twelve months from the date of issue.

Following shareholder approval of the acquisition, Mr. Barry Rushworth, an executive director of Afrex, will be invited to join the board of Pancon.

The company is currently conducting its due diligence on Afrex and is also in the process of preparing a notice of meeting and explanatory statement detailing all aspects of the acquisition and providing shareholders with the necessary independent expert's reports.

"As previously stated the proposed merger of the African interests of both companies brings considerable value to the Company and is of great benefit to shareholders" said Mr Andrew Svalbe, the CEO of Pancon. "Having all the equity in one public listed company will allow for a much stronger position when dealing with majors on any future farmout negotiations and will enable the Company to retain a substantial equity in each project.

"Despite the setback resulting from the withdrawal of Eritrea from the Joint venture asset base and the Woodside decision in June 2004 not to proceed with the Kenya project, we still remain optimistic about the potential of the African asset base.

"With respect to Kenya we do have the very significant benefit of the seismic programme completed by Woodside. This seismic data has shown that the eastern portion of the three PSC's contain the same style of attractive prospects that we believe are present in the areas retained by Woodside in the neighbouring blocks and on which it has recently completed the acquisition of an extensive 2-D seismic survey in order to drill within the next 12 months," Mr Svalbe said.

The results of the Malta seismic programme have also elevated significantly the potential of this licence with the further delineation and upgrading of the mapped prospects and leads. Consequently it is Pancon's view that both the Kenya and Malta licences have sufficient technical merit to attract farminees and discussions are now being conducted with a number of international companies that have expressed interest in both projects.

In regards to Morocco, we are waiting for the licence to be issued by the government."

Summary of project interests held by Pancon in joint ventures with Afrex

Project	Pancon Current equity	Pancon equity post Afrex	Comments	Current permit status
Malta Offshore Area 5 and Area 4,Block 3	32%	80%	Sun Resources has earned 20% by funding seismic programme. Currently presenting farmout opportunities to international oil companies	Granted
Kenya Offshore blocks L6, L8 and L9	40%	100%	Currently presenting farmout opportunities to international oil companies	Granted – now in second term
Morocco Offshore Mediterranean Est block	40%	100% (reducing to 80%)	Cooper Energy to earn 20% by spending US\$175,000 on seismic programme.	Reconnaissance Contract signed by parties, now awaiting grant and issue of licence by Government of Morocco

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It is advised that in accordance with the Australian Stock Exchange Limited Listing Rule 5.10, 5.11, 5.12 and 5.13 that the summary report on the oil and gas projects is based on information compiled by Mr A K Svalbe, BSc (Hons), AAPG, ASEG, FESWA, PESA, Chief Executive Officer of Pancontinental Oil & Gas NL and accurately reflects the information compiled by Mr Svalbe.

