



**PANCONTINENTAL** Oil & Gas NL  
ACN 003 029 543

Ground Floor  
288 Stirling Street, Perth  
Western Australia 6000

P O Box 8260  
Perth Business Centre  
Western Australia 6849

Tel: (61 8) 9227 3220  
Fax: (61 8) 9227 3211  
Email: [svalbe@pancon.com.au](mailto:svalbe@pancon.com.au)  
Web: [www.pancon.com.au](http://www.pancon.com.au)



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ASX Announcements

## **Way clear for drilling to commence in EP 104, onshore Canning Basin, with all farm-outs completed in permit EP 104, Retention Lease R1 and Application L98-1.**

The Company is pleased to announce that it has been advised by Empire Oil & Gas NL, the Operator of EP104, that it has completed the farm-out of the drilling costs of the Stokes Bay-1 well located up-dip from the 1992 Point Torment-1 gas discovery well which tested gas at rates up to 4.3 million cubic feet of gas per day. The Operator announced to the ASX on 18 July 2006 that it had introduced farminee, Phoenix Resources Plc to earn a 30% interest in EP 104 and R1 with the option to earn a 30% interest in the Application for Production License L98-1 by contributing to the West Kora-1 workover.

Following the transaction detailed in this ASX release, the new EP 104 and R1 Joint Venture participants are summarized below:

<b>Pancontinental Oil &amp; Gas N.L. (Pancon)</b>	<b>10%</b>
Gulliver Productions Pty Ltd (Gulliver) <i>(Subsidiary of Empire Oil &amp; Gas N.L.)</i>	14.8%
Indigo Oil Pty Ltd (Indigo)	5.5%
First Australian Resources Limited (FAR)	8%
ARC Energy Limited (ARC) <i>(including Kimberley Oil N.L./now European Gas Limited and Pelsoil N.L.)</i>	32.95%
Emerald Gas Limited (subsidiary of Emerald Oil & Gas N.L.) (Emerald)	18.75%
Phoenix Resources Plc (Phoenix)	10%

The new Production License Application L98-1 participants and the interests will be:

<b>Pancon</b>	<b>12.0%</b>
Gulliver	10.0%*
Indigo	5.5%
FAR	12.0%
ARC	31.75%
Emerald	18.75%**
Phoenix	10%***

\* This assumes that each of Phoenix and Emerald exercise its option to acquire its relevant interest

\*\* This assumes that Emerald exercises its option to acquire its relevant interest

\*\*\* This assumes that Phoenix exercises its option to acquire this interest

This farm-out was revised on 12 September 2006 where Phoenix will earn a 10% interest of EP 104 and R1 by paying AUD\$450,000 towards the drilling of Stokes Bay-1. The Company is already in receipt of these funds from Phoenix as paid on 5 July 2006. The balance of the funding of \$1,350,000 as previously announced are now included in separate farm-outs of Empire's EP 435 and EP 359 permits. Phoenix also has a revised farm-in with the option to earn a 10% interest in the Application for Production License L98-1 by paying \$45,000 towards the West Kora-1 workover programme. Phoenix have expressed their interest in drilling the deeper Valentine-1 Prospect that is on the drilling agenda following drilling Stokes Bay-1. Phoenix can contribute at their 10% interest or can seek further equity if any of the EP 104/R1 parties seek to farm down.

Pursuant to the pre-emptive right clause in the EP 104/R1 Joint Venture Operating Agreement, ARC Energy Limited, on acquiring Kimberley Oil N.L.'s 8% equity in EP 104 and R1, sought further equity in EP 104 and R1 and the Application for Production License L98-1 over the West Kora-1 oil well. Pursuant to the pre-emption right clause, ARC entered into a new Farm-in Agreement with Empire's subsidiary company, Gulliver Productions Pty Ltd on 14 September 2006 where ARC will earn an additional 21.5% equity in both the EP 104 and R1 permits and 16.25% in the Application for Production License L98-1.

The other Farm-in Agreement entered into is where Emerald Gas Limited ("Emerald") is to pay 25% of the Stokes Bay-1 well costs to acquire an 18.75% interest in both EP 104 and R1. Emerald has the option to earn an 18.75% interest in the Production License Application L98-1 located over the West Kora Oilfield by contributing 25% of the costs of a workover to re-commence oil production from the West Kora-1 oil well. Emerald advised the Company it had fulfilled the conditions of its Farm-in Agreement when its parent, Emerald Oil & Gas N.L. re-listed its securities on the Australian Stock Exchange.

Empire Oil & Gas N.L. is carried through the drilling of the Stokes Bay-1 well and has settled all the provisions of pre-emption with the existing EP 104/R1 Joint Venture to both the Phoenix Resources Plc and ARC Energy Limited farm-ins. The Company and the EP 104/R1 Joint Venturers support the election of ARC Energy Limited as the new operator on the understanding that Stokes Bay-1 is the first well drilled, subject to weather conditions, with ARC Energy Limited's contracted Century Rig 18 on it being mobilised to the Canning Basin in the 2007 dry season.

Stokes Bay-1 is an exploration well located to determine the lateral extent of the sands proven to be gas bearing in the Point Torment-1 well. The Point Torment-1 gas discovery is in Retention Lease R1 in the Fitzroy Sub-Basin onshore Canning Basin, Western Australia. This gas discovery is located along the Pinnacle Fault System to the northwest of the West Kora-1 oil discovery. The trap is interpreted to be a 3-way dip closed structure bounded to the north by the Pinnacle Fault. The Unit 'A', 'B' and 'C' sands are down thrown against marine and pro-delta shales in the lower part of the Carboniferous aged Anderson Formation sands. Potential recoverable reserves, if the trap is filled to spill point, are estimated by Empire to be 80 billion cubic feet of gas and 10 million Barrels of oil. Point Torment-1 tested gas at rates of up to 4.3 million cubic feet of gas per day in 1992. At that time the discovery was not considered to be commercially viable and no follow-up drilling was undertaken. If sufficient reserves can be established, a potential gas market exists in the growing West Kimberley power market with the associated sale of condensate extracted from the gas stream.

## **WEST KORA**

The potential for oil in this area is demonstrated by the West Kora Oilfield located within Application for a Production License L98-1. West Kora-1 is a completed oil well, which has the potential to be placed back on production to the existing West Kora-1 Tank Farm. West Kora-1 in particular demonstrates the potential for further oil discoveries along the Pinnacle Fault Trend and in the Stokes

Bay-1 well. Success at Stokes Bay-1 would enhance the timing of settling the grant of the Production License with the Department of Industry and Resources and a workover designed to re-commence production at West Kora-1. The respective Stokes Bay-1 farminees have the right to participate in a West Kora-1 workover and production test.

### **VALENTINE PROSPECT**

Located in R1 and in L98-1 is the large Valentine Prospect, a stratigraphic trap mapped on the down thrown side of the Pinnacle Fault. It covers a large area of 50 square kilometres and is defined by a package of high amplitude seismic reflectors within the Late Devonian section on the down thrown side of the Pinnacle Fault. This package of seismic reflectors is interpreted to contain potentially reservoir quality sands, which pinch out to the northeast against the Pinnacle Fault. What are interpreted to be similar sands were intersected in the Puratte-1 well, which demonstrated good reservoir quality (15 to 25% porosities). Potential recoverable reserves for the Valentine Prospect if hydrocarbons are present and the trap is filled to the spill point are estimated by Empire to be up to 200 million barrels of oil or 1.2 trillion cubic feet of gas. ARC, as the new Operator, is re-evaluating the Valentine Prospect and will be providing its probabilistic reserve estimate in the future. It is considered likely that the drilling of the Valentine Prospect using Century Rig 18 contracted to the new operator, ARC Energy Limited, will immediately follow the drilling of the Stokes Bay-1 well. The Valentine-1 well may also be drilled as a directional well from the same well location or well bore as Stokes Bay-1.

Enquiries:

Andrew Svalbe

Director and Chief Executive Officer

Telephone: 08 9227 3220

Fax: 08 9227 3211

Email: [svalbe@pancon.com.au](mailto:svalbe@pancon.com.au)

*The summary report on the oil and gas projects is based on information compiled by Mr A K Svalbe, BSc (Hons), MAAPG, MASEG, MFESWA, MPESA, Chief Executive Officer of Pancontinental Oil & Gas NL. Mr Svalbe has the relevant degree in geology and has been practising petroleum geology for 38 years.*

*Mr Svalbe is a full-time employee of Pancontinental Oil & Gas NL and has consented in writing to the inclusion of the information stated in the form and context in which it appears.*