



**PANCONTINENTAL** Oil & Gas NL  
ABN 95 003 029 543

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: [mab@pancon.com.au](mailto:mab@pancon.com.au)  
Web: [www.pancon.com.au](http://www.pancon.com.au)

ASX Release

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### **Valentine-1 Exploration Well Commences Drilling**

**Pancontinental Oil and Gas NL (ASX: PCL) wishes to advise that Joint Venture (JV) partner and operator of the EP 104 & R1 Onshore Canning Basin project, Arc Energy (ASX: ARQ), has announced that operations at the Valentine 1 exploration well commenced at 1230 hours WST on 12 August 2007, using the Century 18 drilling rig. Current operations at the well are drilling ahead at 115mMD in a 444mm diameter hole.**

Valentine 1 is located within Permit R1, approximately 20 kilometres north of the township of Derby in northwest Western Australia's Kimberley region. The primary reservoir objective is the Late Devonian aged Virgin Hills Formation. Valentine 1 is designed to intersect the interpreted Virgin Hills sandstones and carbonates near the structural crest of the prospect. The well will be drilled deviated to the 244mm (9 5/8") casing point at approximately 800 metres measured depth, building to a maximum hole angle of 20°. The Valentine 1 well will then be drilled to return to vertical at the top of the main objective section at approximately 3,220 metres measured depth. The deviation at 800m will accommodate the planned subsequent sidetracking operations required to drill the Stokes Bay 1 well, which will be drilled immediately after Valentine 1.

The Stokes Bay 1 well is planned to be drilled by sidetracking from the Valentine 1 well bore after the completion of drilling operations at Valentine 1. Stokes Bay 1 is planned as a test of the extent and reservoir development of the gas accumulation intersected by the Point Torment 1 well and will be drilled as a deviated well with a total depth of approximately 2,500 metres. Point Torment 1 was drilled in 1992 and subsequently flowed gas at a rate of up to 4.3 million cubic feet of gas per day from the Carboniferous aged Anderson Formation sandstones. Subsequent tests of these sands produced ambiguous information on potential volumes and reservoir quality and the Stokes Bay 1 well is designed to provide a definitive test of the reservoir quality and extent of the accumulation.

Final interests in R1 and EP104 post the Valentine 1 well farm-in earning program are:

ARC Energy Limited (Operator)	38.95%
Empire Oil and Gas NL	14.8%
Emerald Oil & Gas NL	12.75%
<b>Pancontinental Oil &amp; Gas NL</b>	<b>10%</b>
Phoenix Resources PLC	10%
First Australian Resources Limited	8%
Indigo Oil Pty Ltd	5.5%



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Pancontinental General Manager Matthew Battrick said: "This activity is the culmination of a two year process to fund the drilling of these two wells that, if successful, could add substantial value to Pancontinental and the JV as a whole. We look forward to some positive news from these drilling operations over the next 7 to 8 weeks."

"We will be contributing 10.67% to the well costs to increase our participating interest from 8% to 10%. If successful, these two prospects have the potential to add a combined 7 to 10 million barrels of oil equivalent resources, net to Pancontinental" Matthew said.

**Enquiries:**

Matthew Battrick  
General Manager  
Tel: 08 9227 3220  
Fax: 08 9227 3211  
Email: [mab@pancon.com.au](mailto:mab@pancon.com.au)

*The summary report on the oil and gas projects is based on information compiled by Mr M A Battrick, BSc, MAAPG, MPESA, MAICD, MPESGB, General Manager of Pancontinental Oil & Gas NL. Mr Battrick has the relevant degree in geology and has been practising petroleum geology for 26 years.*

*Mr Battrick 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.*