

ROTHSAY CONSULTING SERVICES Pty Ltd

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18 April 2000

The Directors
Pancontinental Oil & Gas NL
100 Stirling St
Perth WA 6000

Dear Sirs

Independent Expert's Report on the Acquisition of Western Australian Petroleum Exploration Interests.

You have requested we provide an Independent Expert's Report to advise the shareholders of Pancontinental Oil & Gas NL ("Pancontinental" and "the Company"), as to whether the proposed transactions detailed below are fair and reasonable to the non-associated shareholders and to set out the reasons for our conclusions.

Rothsay understands and has agreed that this report is to be included in an information memorandum to assist shareholders in their consideration of resolutions to be put at an extraordinary general meeting of the company.

The Proposed Transactions

The terms of the proposed transactions upon which Pancontinental shareholders are requested to vote were reported to the Australian Stock Exchange ("ASX") on 21 January 2000 as follows:

The Company announces that, subject to shareholder approval, it has exercised its right to acquire interests in six oil and gas exploration permits in Western Australia for a consideration of A\$380,000 through the acquisition of Starstrike Resources Limited and its subsidiary Euro Pacific Energy Pty Ltd. The permits and interests are:

| | | |
|---------|---------------------------------|--------|
| WA 272P | Perth Basin – offshore | 25% |
| EP 413 | Perth Basin – onshore | 1.278% |
| EP 414 | Perth Basin – onshore | 2.556% |
| EP 369 | Merlinleigh Sub-Basin – onshore | 95% |
| EP 406 | Carnarvon Basin – onshore | 100% |
| EP 110 | Carnarvon Basin – onshore | 8.2% |

The directors have negotiated a purchase price of A\$380,000 with the vendor, the Rockfield Investments Limited group (Rockfield), being satisfied by the issue of 8 million fully paid shares at an issue price of A\$0.0475 (4.75 cents). In arriving at the issue price of A\$0.0475 per share consideration was given to the original proposal to issue 14,000,000 shares to acquire the portfolio and the pricing of 5 cents per share for the recent offer to all shareholders which included a free option for every two shares subscribed.

Summary of Opinion

- **In our opinion the acquisition of the six oil and gas exploration permits is not fair but is reasonable to non-associated shareholders.**

Our opinion is based on economic, market and other conditions prevailing at the date of this report which can change significantly over relatively short periods of time.

Criteria for Evaluation

Section 623 of the Corporations Law requires the notice of meeting issued to shareholders to approve the acquisition of the petroleum permits be accompanied by a report stating whether the acquisition is fair and reasonable to the non-associated shareholders of Pancontinental. In addition ASX listing rule 10.10.2 requires transactions with persons in a position of influence to be reported on stating whether the acquisition is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded.

In addition, in preparation of this report we have had regard to the requirements of ASIC Practice Note 42 Independence of Experts' Reports.

The term fair and reasonable has no legal definition. However, the Australian Securities and Investments Commission ("ASIC") Policy Statement 74 establishes certain guidelines in respect of the preparation of experts' reports.

What is fair and reasonable for non-associated shareholders should be judged in all the circumstances of the proposal. The report must compare the likely advantages and disadvantages for the non-associated shareholders if the proposal is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the value of the shares to be acquired under the proposal and the value of the consideration to be paid is only one element of this assessment.

In forming an opinion as to whether the transactions are fair and reasonable to Pancontinental non-associated shareholders, we believe that:-

- The value of the assets being acquired must be equal to or greater than the consideration offered by Pancontinental;
- No alternative transactions are available which are more advantageous to Pancontinental non-associated shareholders.

Rothsay has determined whether the offer is fair by comparing the underlying value of Pancontinental with the value of the assets being acquired. Our methodology for the value of Pancontinental is described in the section titled fair value. We have also considered the following in determining whether the offer is reasonable.

- The likely market price and liquidity of Pancontinental shares in the absence of the acquisitions;
- The likelihood of alternative acquisitions; and
- Other advantages and disadvantages for Pancontinental shareholders in approving the acquisitions.

SOURCES OF INFORMATION

In forming our opinion as to the proposed transactions we have considered information including:

- Audited financial statements of Pancontinental for the year ended 31 June 1999 and the financial statements for the six months ended 31 December 1999 which have been subject to an audit review.
- The recent ASX trading price and volumes of Pancontinental shares.
- Releases by Pancontinental to the ASX including the 31 December 1999 quarterly.
- PetroVal Australasia Pty Ltd's Independent Valuation Report on the petroleum assets of Euro Pacific Energy Pty Ltd dated 12 January 2000

- Unaudited financial statements of Starstrike Resources Limited and its subsidiary Euro Pacific Energy Pty Ltd as at 31 December 1999.
- Draft notices of meeting and information memorandum to be dispatched to Pancontinental shareholders regarding the proposed transaction.

In preparing this report we have reviewed the information described above as well as other published and unpublished information. We had discussions with the directors of Pancontinental concerning the proposed acquisition and the assets and liabilities of the company.

The statements and opinions contained in our report are given in good faith and upon reasonable grounds in the belief that such statements are not false, misleading or incomplete. We have considered explanations given to us in our discussions with the directors and senior management of Pancontinental. Whilst we have no reason to doubt the accuracy of any information provided to us or that any material information has been withheld from us or is incomplete, we have not independently verified the information.

BACKGROUND

Corporate History

Pancontinental is a company listed on the ASX whose principal historical activity has been as a mineral explorer.

Further information on the operations of the company is available from the annual accounts which are available from the company and announcements made to the ASX.

Current share structure

There are approximately 720 shareholders of the 53,533,158 fully paid ordinary shares of which 505 hold less than a marketable parcel and 165 option holders over 17,710,083 options exercisable at 20cents prior to 31 March 2002.

Directors

HD Kennedy
IR Cornelius
A Svalbe
PL Munachen
LA Colless (alternate for PL Munachen and IR Cornelius)
C Crabb (alternate for HD Kennedy)

The interest of Directors in securities of the company are detailed in the 1999 Annual Report.

ACQUISITION

As the attached information memorandum provides a detailed synopsis of the proposed acquisitions we have not repeated it in the body of our report and shareholders should read the memorandum in conjunction with our report.

FAIR VALUE

For the purpose of assessing fairness to Pancontinental shareholders, a value needs to be attributed to the consideration offered by Pancontinental (Pancontinental shares) and the assets to be acquired. The value of a company's shares is usually determined by reference to both asset values and the consistency and quality of earnings. In this regard we have considered the following valuation methodologies:

- The **market value** of shares in Pancontinental as quoted on the ASX

This method relies on the efficient market hypothesis, which states in general terms, the market price at any point in time should fully reflect available information given willing buyers and willing sellers. This method is widely accepted and extensive evidence is available to support the hypothesis.

- The value of shares in Pancontinental based on the **asset backing method**.

This method considers the realisable value of Pancontinental assets by sale as a going concern or, alternatively, realisation of individual assets by orderly disposal or liquidation.

- The value of shares in Pancontinental based on the **capitalisation of future maintainable earnings method**.

This method requires estimation of the company's future maintainable earnings given historic and forecast performance, then determination of an appropriate capitalisation rate (or price/earnings ratio factor) to reflect the purchase's assessment of risk and return factors.

- The **discounted cash flow valuation method** which discounts future cash flows to current values by recognising risk and time value of money aspects.

Fair Market Value Is Commonly Defined as:

The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arms-length.

VALUE OF PANCONTINENTAL SHARES

Market Value

A review of the price movements and trading activity of Pancontinental on the ASX reveals consistent trading on low volume in the 5 to 10 cent range. Apart from market activity post the announcement of the proposed transaction Pancontinental shares have traded around the 4 to 5 cent mark which in our opinion is an indicator of the value of Pancontinental shares. This price is confirmed considering that the recent rights issue at 5 cents with a free attaching option was heavily under-subscribed. Given that the option value would lower the net cost of the share to below 4.75 cents and most shareholders were unwilling to acquire shares at that price through the rights issue adds further confidence that a 4.75 cent share price for the transaction is considered reasonable for non-associated parties.

Market value is influenced by the market's perception of many factors including the value of assets, the industry in which the company operates, managerial skills within the company and future expectations for the company. These market perceptions can change significantly over a relatively short period of time and are also significantly influenced by supply and demand for the shares. In our opinion Pancontinental's share price has been affected by the strengthening oil price, the market's anticipation that the company may join the growing list of dotcom companies and the market's interpretation of recent activities.

Whilst the volume of shares traded prior to the announcement of the subject acquisition is substantially less than the number of shares to be allotted we have some confidence in using market evidence as one of our valuation approaches.

Net Asset Backing

Included in Appendix 1 is the audited balance sheet of Pancontinental at 30 June 1999 and the balance sheet at 31 December 1999, which has been subject to an audit review.

These accounts indicate a net asset backing per share in the range of 4 to 5 cents.

The net asset backing of Pancontinental is substantially affected by the value of its exploration tenements which were last independently valued in October 1998.

If there is a material difference between the book value and the fair value of the exploration tenements then the calculation of the consideration being given by Pancontinental for the equity in Starstrike will be affected and **the consideration may not be fair to non-associated parties**

We have some confidence in using the net asset backing per share as one of our valuation approaches.

Capitalisation of Earnings

Given the nature of Pancontinental's operations, there is no expectation of operating profits in the foreseeable future. Accordingly, there is no basis for arriving at a value of Pancontinental based on capitalisation of future maintainable earnings.

Research Analyst Valuations

We are not aware of any research analyst publications that would provide assistance in determining the value attaching to Pancontinental shares.

Dividends

We understand no dividends have been paid by the company since listing which is consistent with the nature of a mineral explorer.

Alternative Offers

We are not aware of alternative offers or indications of such in respect of Pancontinental shares other than normal ASX trading and the proposed transactions and therefore do not consider the alternative offer valuation method relevant.

Conclusion on the Value of Pancontinental Shares

In our opinion the most appropriate value of Pancontinental shares based on review of the above methodologies is 4.5 cents.

It is not unusual for companies to trade at either a premium or discount to their net assets backing. Investors' willingness to gain exposure to activities based on their potential to outperform the fundamental value of the company through either new developments or hope of commercial success may contribute to the premium. The converse argument applies for a discount.

A difference between the market value and net asset backing value would also relate to the value of an ASX listing given the costs to gain official quotation.

VALUE OF THE ASSETS TO BE ACQUIRED

PetroVal Australasia Pty Ltd (PetroVal) provided a fair market value of the assets to be acquired at a range of \$70,000 to \$460,000 with \$285,000 as the most likely value. We are of the opinion that the consideration negotiated between a willing but not anxious buyer and a willing but not anxious seller would more likely be closer to the high end of the valuation and are comfortable with a price of \$380,000 which is within the range of values prescribed by PetroVal.. This price also takes into account the renewed strength of the oil price and that the shares will be escrowed.

Whether a company is able to conclude an agreement that optimises a transaction to the preferred value of independent valuers depends on the various viewpoints and arguments of the vendors and purchasers however we believe that from a commercial sense a price within the range of values suggested by the independent valuers is considered fair to non-associated parties.

If however one adopts PetroVal's most likely value then the consideration is not fair to non-associated parties.

We consider PetroVal possess appropriate qualifications and experience in the oil & gas industry to assist us in our assessment and the assumptions they have used seem reasonable and were drawn on source data that appears appropriate and they satisfy the independence requirements of various ASIC releases. PetroVal were paid a fee of \$6,000 for their report.

We have also considered the consolidated financial statements of the Starstrike group which are detailed at Appendix 2 and indicate net assets being acquired of \$435,435. This figure includes the exploration tenements at \$430,507 with the balance comprising cash at bank and confirms the assets are being acquired at a discount to their capitalised expenditure and within the range of the PetroVal valuation.

CONCLUSION AS TO FAIRNESS OF THE TRANSACTIONS

In our opinion without an independent valuation of Pancontinental's current exploration tenements and further explanation of why PetroVal's most likely value has not been adopted the acquisition is not fair as the value of the assets to be acquired may not be greater than the consideration.

OTHER CONSIDERATIONS

- **Share Price of Pancontinental if the Transactions Rejected**

If the proposals are rejected by shareholders, Pancontinental shares are likely to trade below 4 to 5 cents based on the markets' assessment of factors affecting the company.

Directors have been considering the future of the company and believe the transactions are in the best interests of non-associated shareholders. The cash reserves of the company need replenishing and capital raising for petroleum projects in the current economic environment are considered more likely to succeed than other resource projects.

- **Escrow**

We understand the shares to be issued will be escrowed for a period of at least twelve months and during that period have no negotiable value other than if the company was taken over when if the takeover were at a premium all shareholders would benefit.

- **Taxation Consequences**

Pancontinental has substantial tax losses in respect of tenement exploration expenditure and revenue losses available to be carried forward to be offset against income. This potential asset is not brought to account in the financial statements as the ability to receive value from them is dependant on the derivation of income both here and overseas which, given the nature of the company, is uncertain.

Notwithstanding the transactions may affect the ability to realise these carried forward balances, on the basis the ASX trading probably attributes no value to the tax losses given their potential realisation is uncertain, we do not believe this is a significant negative factor for shareholders.

Other Factors

We have considered other significant factors which non-associated shareholders should consider when deciding to accept or reject the proposed transactions.

Intentions

We understand that Rockfield has no intention to change the employment arrangements of Pancontinental employees or to transfer further property and will continue to focus on the development of the company's assets including the petroleum assets the subject of the acquisition.

Advantages

- Pancontinental increases its petroleum exploration acreage;
- Rockfield with its greater control is more likely to finance the company's exploration shortfall.

Disadvantages

- Petroleum exploration is an high risk/high reward industry.
- Future capital raisings to meet exploration commitments may dilute shareholder interests.

CONCLUSION AS TO REASONABLENESS

We have noted that there are currently no alternative transactions more advantageous to the non-associated shareholders and having considered these and other factors relevant to the proposed transaction, it is our opinion the proposed transaction is reasonable to the non-associated shareholders.

PREMIUM FOR CONTROL

When considering transactions involving a significant equity holding of a company it is appropriate to address whether a premium for control should attach to the transaction. the circumstances of each transaction and the prevailing economic conditions can impact significantly on the control premium paid.

In our opinion a premium for effective control was attached to the original transaction wherein the option to acquire the permits was approved which was the subject of the general meeting of shareholders held on the 30th November 1998. The issue of the additional shares the subject of this transaction establishes further control but does not necessarily command any further premium.

AUTHOR

Rothsay Consulting Services Pty Ltd ("Rothsay") is the corporate consulting arm of Rothsay Chartered Accountants and has experience in providing advice on mergers and acquisitions for listed companies.

Graham Rothsay Swan a Chartered Accountant with a Bachelor of Economics was primarily responsible for the preparation of this report and he has experience in preparing expert's reports under the Corporations Law, ASX listing rules and ASIC statements and releases.

There are no pecuniary or other interests which could be regarded as being capable of affecting the ability of the author to give an unbiased opinion in respect of the matters raised in this report.

DECLARATION OF INTEREST

Rothsay has no interest in Rockfield or Pancontinental and does not have any relationship with any company or any person associated with either of these entities.

The fee received for the preparation for this report is based on normal professional rates and is not dependent on the outcome of the proposal. With the exception of this fee Rothsay has not received and will not receive any pecuniary or other benefits whether directly or indirectly, in connection with the preparation of this report.

The report does not serve any purpose other than as an expression of our opinion as to the fairness and reasonableness of the transaction to be put forward to Pancontinental shareholders. It is not intended that this report should be used for any purpose other than to accompany the Information Memorandum to Shareholders of Pancontinental and the report is for the benefit only of those persons expressly entitled to receive a copy of the report.

Recognising that Rothsay may rely on information provided by Pancontinental and its officers (save whether it would not be reasonable to rely on the information having regard to Rothsay's experience and qualifications), Pancontinental has agreed:

- To make no claim by it or its officers against Rothsay to recover any loss or damage which Pancontinental may suffer as a result of reasonable reliance by Rothsay on the information provided by Pancontinental:
- To indemnify Rothsay against any claim arising (wholly or in part) from Pancontinental or any of its officers providing Rothsay any false or misleading information or in the failure of Pancontinental or its offices in providing material information except where the claim has arisen as a result of wilful misconduct or negligence by Rothsay.
- A draft of this report was presented to Pancontinental's Directors for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.
- We consent to the inclusion of this report in the form and context in which it appears in the information memorandum.
- We estimate a fee of \$16,000 will be charged for the preparation of this report.

Rothsay Consulting Services Pty Ltd

Graham R Swan
Director

APPENDIX 1**PANCONTINENTAL OIL & GAS NL
BALANCE SHEET**

| | Audited 30 Jun 1999 | Audit Reviewed 31 Dec 1999 |
|--|--------------------------------|---------------------------------------|
| Current Assets | | |
| Cash | 348,691 | 677,047 |
| Receivables | 8,796 | 7,344 |
| Total Current Assets | <u>357,487</u> | <u>684,391</u> |
| Non-Current Assets | | |
| Investments | 64,425 | 87,435 |
| Exploration tenements | 1,594,106 | 1,698,482 |
| Property, plant & equipment | 7,745 | 6,164 |
| Total Non-Current Assets | <u>1,666,186</u> | <u>1,792,081</u> |
| Total Assets | <u>2,023,673</u> | <u>2,476,472</u> |
| Liabilities | | |
| Creditors and borrowings | 125,808 | 73,160 |
| Total Liabilities | <u>125,808</u> | <u>73,160</u> |
| Net Assets | <u>1,897,865</u> | <u>2,403,312</u> |
| Shareholders Equity | | |
| Share capital | 4,259,063 | 4,971,506 |
| Accumulated losses | (2,361,198) | (2,568,194) |
| Total Shareholders Equity | <u>1,897,865</u> | <u>2,403,312</u> |
| Net asset backing (cents per share) | .057 cents | .045 cents |
| Shares on issue | 32,794,802 | 53,533,158 |

APPENDIX 2**STARSTRIKE RESOURCES LTD
UNAUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 1999**

| | |
|-----------------------------------|---------------------------|
| CURRENT ASSETS | |
| Cash | 4,928 |
| Total current assets | ----- 4,928 ----- |
| NON CURRENT ASSETS | |
| Exploration tenements | 430,507 |
| Total non-current assets | ----- 430,507 ----- |
| TOTAL ASSETS | ----- 435,435 ===== |
| SHAREHOLDERS'EQUITY | |
| Issued Capital | 954,889 |
| Accumulated Losses | (519,454) |
| TOTAL SHAREHOLDERS' EQUITY | ----- 435,435 ===== |