Pancon to bolster African interests

It's a case of third time lucky for Pancontinental Oil & Gas NL in the company's bid to finally win control of its joint venture partner Afrex.

The long-time allies decided to formalise their relationship with a friendly take-over some months ago, but circumstances meant Pancontinental has been forced to go back to the drawing board twice.

First, the Eritrean Government declared the draft Production Sharing Contract (PSC) for the offshore Massawa Block was "null and void".

Then Woodside turned its back on Pancontinental's three Kenyan licences in favour of an adjacent joint venture with Global Petroleum Ltd.

That's behind the company now, according to chief executive Andrew Svalbe, who said the friendly takeover was now finalised with Afrex now being valued at $11.3 million.

The merger will involve the issue of up to 142 million shares to Afrex shareholders and an over-riding 2% royalty over any as yet undeclared projects in the development pipeline.

While Pancontinental will almost double its amount of shares on issue, Svalbe said acquisition will result in the company increasing its interests by 150% and holding the combined interest of both parties for a moderate sum.

He said the Afrex merger would give desirable extra muscle to company, which outside Africa has mostly small equity shares in a suite of Australasian projects.

The post-merger company will have 80-100% equity over its projects in Kenya, Morrocco and Malta from which it can follow the tried-and-true strategy of working them over with the aim of enticing a major to help fund offshore drilling.

Svalbe remains bullish over the big potential African acreage, especially the three Kenyan licences, over which Woodside shot $2 million in seismic shot during 2003 before pulling out.

While Woodside's decision was a blow to the company and its share price, Svalbe said he had no regrets.

"Look at Mauritania. In the beginning Shell farmed in to the Hardman acreage, didn't like it and walked away. Woodside came in, and the rest is history. We just see that Woodside in Kenya is the same as Shell in Mauritania."

Svalbe said many large companies were interested in the three licences, and that Woodside's decision to drill several wells in the adjacent acreage by the end of the year was promising.

"We believe that we have identical prospects, yet in shallower water," he said.

"We're very positive, we have potential company makers, and as we have mapped them so far we believe the potential of the larger prospects is in excess of one billion barrels, and it's rare for a company our size to have exposure to something like that."

However, even if Woodside's efforts come to nothing, Svalbe is untroubled.

"Our analysis of the Woodside well actually gives some concerns, and we believe there could be some charge problems in their permits, whereas we have the oil and gas kitchens in our permits, and we think they are sheltered from our kitchens by a major basement ridge.

"If they drill a dry hole, it won't hurt us technically too much," he said.

Elsewhere in Africa, the company has just completed an extensive seismic program in Malta which has delineated a range of prospects and leads (Sun Resources 20%).

Svalbe said these prospects were identical or very similar to producing fields in Tunisia to the west and Libya to the south.

They're big plays, with the bigger prospects having up to a one billion barrel potential.

The Libyan Government recently awarded a number of concessions adjacent to Pancontinental's Maltese acreage, and among the winners are Woodside and Oil Search.

"We believe we've got identical geology in Malta to the surrounding producing areas but in a Westminister-based Government and legal system. We would like to think that some of the successful - or unsuccessful - Libyan bidders will come to us and be attracted by the geology. These are hot areas.

"More importantly the Maltese are working under a British system much akin to ours, so it's probably a more comfortable regime to what we're used to, but we don't face the higher signature bonuses and up-front costs that may be incurred in Libya."

In the more frontier areas, Svalbe remains optimistic the company will work though delays in being awarded acreage in Morocco and Eritrea.

Svalbe is mystified by the Eritrean Government's decision, but he admits its a risk in working with developing political systems, but the Government has invited Pancontinental and Hardman to renegotiate a new PSC, and both companies are still keen to explore.

In Morocco, delays on getting the award of its Moroccan frontier acreage (Cooper Energy Ltd 20%) are frustrating, but negotiations are complete and the joint venture is waiting for the Moroccan Government to sign off on the paperwork.

The Mediterranee Est block is almost untouched by the drill bit, but Svalbe said the primary geology style is turbidite sequences, similar to the Gulf Coast, Nigeria and Mauritania where reservoirs have been found in the shale packages which contain the source rocks, with hydrocarbon traps being generated by structural traps and diapiric shale movements.

The company wants to complete a technical study to determine where to shoot 500 km of 2D seismic.

Svalbe said a high level of near and medium term work commitments in Libya, as a result of the bid work programs, meant the region would soon be busy, and hopefully the company could see drilling in the Malta area within 18-24 months.

The same could happen in Kenya, although some additional 3D may be needed to work the structures up to drillable targets, he said.

Closer to home, the company is raising $2.7 million to cover ongoing exploration costs internationally and in Australasia.

At least one well, Oru-1, will be drilled in the Taranaki Basin in the PEP38716 project (9.42%) by operator Austral Pacific Energy Ltd in mid-2005, and seismic will be shot in the East Coast Basin's PEP38330 (42.87%) during May 2005 to work up some drillable targets for year end..

In the near term, Pancontinental hopes to proceed with the delayed drilling of EP104 (8%), where the Point Torment gas field needs appraisal with the proposed Stokes Bay – 1 well.

The idea to set up a small LNG plant with Empire Oil & Gas Ltd and LNG Ltd for servicing the large industries in the Pilbara.

The well was to have been drilled in June 2004, but Enterprise Energy pulled out at the last moment and the funding fell apart and another farminee is being sought for this Canning Basin project.

"More importantly, in our offshore north west shelf permits EP 110, EP 424 (25%), and WA 340-P (25%), we will be acquiring new 2D seismic data this year in order to mature a number of potential drilling locations in areas.

"All these permits are adjacent to producing fields, and the prospects being matured by the new seismic will have similar targets," Svalbe said.

Pancontinental Oil & Gas NL (PCL)

Market Capitalisation:$12,180,822

Issued Capital: 181,803,316

Share Price at April 29:$0.067

P/E Ratio:-12.88

12 month high/low:$0.17/$0.05