

## Pancontinental Oil &amp; Gas NL

# Taking a good name into another era

The name Pancontinental has been around for a long time in various forms in the oil and gas industry. The current incarnation as Pancontinental Oil & Gas NL was founded in 1999. The company has significant on and offshore interests in Western Australia, including prospects in the much-favoured North West Shelf and Perth Basin. Pancon also has interests in New Zealand, East Africa and Malta. As well, it is chasing additional permits in north and eastern Africa with Afrex, its partner in the offshore Kenyan and Maltese projects.

The company is chaired by David Kennedy, who has long experience in the E&P industry. He was an executive director of companies involved in the discovery of the Tubridgi gas field and the South Pepper and Chervil oil fields in Western Australia. The CEO is **Andy Svalbe** who has a degree in economic geology, has had a 12-year career with Exxon in Australia and overseas ranging from exploration and development in the Bass Strait to the North Sea, Prudhoe Bay, Sumatra and offshore Malaysia, before returning to Australia to be the Exploration Manager, and then CEO of Pancontinental Mining's petroleum arm, Pancontinental Petroleum NL (PPL) which operated or participated in the discovery, to name a few, of the Dingo, Nockatunga, Winna, Thungo, Tintaburra, Talgeberry, Ipundu, South Pepper, North Herald, Chervil oil and gas fields in the Amadeus, Cooper Eromanga and North West Shelf areas. After the hostile takeover of PPL, he consulted within Australasia and internationally and was then appointed the chief geoscientist-petroleum for the Geological Survey of WA to recruit a team and review the petroleum potential of all Western Australia's major sedimentary Basins. **VIEWPOINT** caught up with Mr Svalbe at his office in Perth for this Face to Face interview.

**VIEWPOINT:** Can you outline Pancon's immediate history?

**Svalbe:** My involvement with Pancon's history began when David Kennedy, the major shareholder, invited me in 1997 to come and join the boards of a number of private unlisted companies. These companies already had a number of oil and gas properties in them, in New Zealand, Australia and overseas. The overseas assets were two producing oil fields in Albania. The objective was to develop these assets to a stage where they would become attractive and valuable enough to vend into a vehicle and list. That happened in late 1998, then in early 1999 we took over a junior gold miner, Genesis Resources, an



ASX listed company. We vended in the oil and gas assets into Genesis Resources and in turn renamed Pancontinental Oil and Gas NL. So, in essence, it's been operating as a listed company since late 1999.

**VIEWPOINT:** The name? There was another Pancontinental at one stage?:

**Svalbe:** There lies a Freudian twist of fate. I was the CEO and managing director of Pancontinental Petroleum NL, in the early 1980s, after I was head-hunted out of Exxon in Malaysia and invited to come back and work for Pancontinental Petroleum by Pancontinental Mining, the company run by Tony Gray in Sydney.

Like Western Mining, Gray saw that it was advantageous for a mining company to have an oil and gas arm. Tony saw Pancon Mining as the next Western Mining or BHP in Australia. The world-class Jabiluka uranium deposit was the core mining asset in his portfolio as well as a gold property called Paddington in Kalgoorlie. Pancontinental Petroleum was very successful. We found a lot of oil and gas in the Cooper and Eromanga Basins as operator, to the east and southeast of the Jackson oil field. We were involved with the companies like Hartogen, Bligh, and Bridge. We were also involved as operator in developing a number of gas discoveries in the Amadeus Basin as well as being participants in the Palm Valley and Mereenie gas fields. Then we were the successful

applicants, together with Western Mining, for the permits in which we discovered the North Herald, South Pepper, Chervil and South Chervil offshore oil discoveries in the Carnarvon Basin. That really put us on the map and gave us a very substantial potential cashflow. At the same time we had equity in, and were involved in building the Alice Springs to Darwin gas pipeline.

With the oil and gas production in Amadeus and Cooper Basins and the significant discoveries in the North West Shelf, we were very well positioned to become a very significant Australian oil company, similar to Santos. Regrettably we were taken over by Russell Goward, who caught Pancon Mining on the hop because it was having substantial expenditure requirements in Queensland mining projects and at the same time, 1987, the oil price crashed to below US\$10. Subsequently Goward broke up all the Pancon Petroleum assets. The majority were sold off to Ampol. Ampol owned Pancontinental Petroleum which was then taken over by Mobil which in turn was taken over by Exxon.

During this same time, one of the joint venture parties in the North Herald/South Pepper discoveries was NZ Oil and Gas—under the guise of PanPacific Petroleum. Its chairman was David Kennedy and he liked the name Pancontinental Petroleum. Now we come back to 1998 and our take over of Genesis. I put forward a number of names which would be appropriate for an oil and gas company. David said to me: “Andy, would it really worry you if we called it Pancontinental Petroleum?” I said: “David, apart for the boys crucifying me in the bar on the pretensions of me resurrecting a phoenix, I don’t think the name is available because I suspect that it is in a dusty box in Exxon/Mobil’s archives.” Nevertheless, we looked it up on the register of companies to discover that it was available. So as a small gesture to the change in times we

became Pancontinental Oil & Gas NL. Our ASX code is PCL where as the older company was PPL.

**VIEWPOINT:** Your New Zealand permits: where do you see things going with the onshore Taranaki Basin and onshore East Coast Basin prospects now that the Huinga and Waingaromia wells have been drilled?

**Svalbe:** New Zealand is good for three main reasons. Firstly, technically it has demonstrated petroleum basins. The Taranaki is a classic; perceived as the other half of the Gippsland Basin and having sediments akin to the Latrobe Group. It also has a developed Mining Code and a society with an English background. This makes it a good place in which to operate. It has a ready market for petroleum products, so there was never any problem in marketing any discoveries that you made, even more so now with the demise of the major Maui gas field.

We took a position in the Taranaki Basin because it

was very prospective. Our permit has major structures with large potential reserves. That’s why the Huinga prospect had potential recoverable reserves of over 160 million barrels and 300–400 bcf of gas. If that had been successful it would have been a company-maker. With the premature demise of Maui, people are crawling over broken glass to buy uncommitted gas reserves. Pokahura hasn’t reached people’s expectations. The east coast has good potential. There are seeps all over the place. The very fact there are surface seeps means that oil and gas is being generated. There are major structures there and the first commercial, or semi-commercial, discovery has been made in the last three or four years. Because of topography there are problems in acquiring seismic and thus problems in defining where the optimum sub-surface target positions are. The reservoirs are there. Everything else is there for a good petroleum system.

The other important factor is that the east coast of New Zealand is the heartland of the biggest pine plantation industry in the southern hemisphere, largely or-

chestrated by the Japanese. That pine is planted for one reason ... the paper industry and right now, because of the energy costs in New Zealand, about 80% of that timber is being exported out of New Zealand to be processed as value added paper products where energy is cheaper.

That irks the (NZ) Government no end. It would love to be able to get the revenues, royalties and flow-on effects, such as employment from that value added downstream industry. Given a cheaper energy supply via gas in that area, you could process that timber and create jobs rather than exporting it. You could build a gas turbine power station just next to the wellhead, throw your wires up to the nearby pylons of the national electricity grid and transport your gas via electricity to the timber/pulp/paper processing

plants that required power.

Our research to date has shown the existing pulp plants plus general power generation requirements could represent sales of up to 30 BCF of gas a year. This is a very substantial market, and we’re going for that, that’s why we’re staying on the East Coast Basin, and we are active in exploring in our large permit which has a number of prospects with reserves potential of over 300 BCF.

**VIEWPOINT:** You said people were crawling over broken glass with respect to Taranaki ...

**Svalbe:** I think that really applies to New Zealand in general. The potential shortages of gas as a consequence of Maui reserve shortfalls or the premature inability of Maui to supply gas is already starting to hit home.

**VIEWPOINT:** The company has interests in the Carnarvon and Canning Basins and offshore Shark bay WA. What are your exploration plans for these?





**Svalbe:** We acquired a lot of those properties prior to my coming on board. They are worthwhile. But we are in the process of rationalising them, and that's why we farmed out a large percentage of our EP 406, offshore Shark Bay permit to Victoria Petroleum to be carried for all costs including the drilling of a well.

Our onshore Perth Basin permits have been kept as a window into the proximal market for gas and oil in the Perth Basin. We were successful with the Jingemia discovery in our EP 413 permit. Jingemia together with Hovea, and its look alike in the offshore, Cliff Head, at the moment are the big news items for onshore Western Australia. We'll keep the position there, and we're also re-evaluating other parts of the Perth Basin now, in the light of those discoveries to possibly expand that position.

The Canning Basin is an old chestnut. We've got 10% in EP104. We've already signed an agreement with a gas marketing group. If they are successful in getting the power generation contract for the Broome area and, perhaps, the allied mineral industry areas and if we can develop sufficient reserves we might have a commercially viable project there. That's longer term. It's something that I think we are happy to keep our finger on and see how it develops.

**VIEWPOINT:** You've got 5 in Kenya and in the Mediterranean Sea located between Malta and Libya and Tunisia each with London based Afrex. Where do you see this going?

**Svalbe:** We were granted 3 large permits, virtually half of offshore Kenya, in late 2002. Those properties comply with those prerequisites. Malta is more British than the British, if you recall your history, It is where Richard the Lion Heart and the crusaders went through on their way to Palestine. The systems, the administrations are very English.

By the same token the street language in Kenya is English and its infrastructure, political structure and legal and administrative structure is English-based. With its recent elections Kenya has become even more acceptable as an investment centre.

Malta is on the door-step of two of the major oil provinces in the world. The Libyans have been surviving on their oil revenues for the last 50 years. I was based in Tripoli working for Exxon for a number of years working up the Libyan offshore acreage. At that time it was my job to work up the offshore area in Libya and to do that we had to look at all the adjoining areas including Tunisia, Malta and southern Italy. That gave me a very good understanding of how the petroleum systems of that area worked.

So, a few years ago when we started implementing our international strategies, we saw that the Maltese were gazetting some large blocks in their territorial waters. We looked at the data and immediately recognised that the same plays that I'd been looking at in the Libyan area, in the past, were present there. In turn, there was a billion barrels plus oil field just sitting off the southern boundary, in the same rocks that we had in our own Maltese permits. Furthermore, the same trend that contains those oil fields both in Libya and in Tunisia existed in our Maltese permit. We are now in the process of working that up with a view of farming it out to a European-based major which operates in that area. And I have confidence we'll do that.

The identical thing is happening in Kenya. We realised that with the break up of Gondwana the geological history of the east coast of Africa was very similar to the North West Shelf areas of Australia. Our recently completed study of the Kenyan data has confirmed that belief or geological model, and that it's even better than we expected structurally and stratigraphically. The offshore Kenya area is very similar and I believe will be shown to be superior petroleum province to the the North West Shelf.

We've already mapped a number of prospects there that are over a billion barrels and multi TCF in size. We are now commencing initial approaches to multi-national companies with a view of farming out our commitments to a multi-national company to come in and spend the big dollars for us drilling the big wells after acquiring more detailed 2D and 3D seismic.

To the south of our Kenyan permits, in Tanzania, the development of the Songo Songo, a 1-2 tcf gas field, is starting to take place. It's on a nearshore island, like Barrow Island, and a pipeline is being built from it to the onshore and then up the coast to the capital city, Dar es Salaam to convert the existing power generation plants to gas.

**VIEWPOINT:** You mentioned in 2001 that you were also looking at something in northern Africa. Which countries are these?

**Svalbe:** Morocco and Eritrea. Eritrea because it has a large offshore salt basin, in the Red Sea area, and that is already producing oil and gas to the north.

Morocco has very good geology. I think it shows all the geophysical attributes of being a petroleum province. Conoco has got a big position to our west, and it's something that we are going to continue to pursue.

**VIEWPOINT:** Will Pancon need to go to the market with some form of raising in the next 12 months?

**Svalbe:** I think with cash flows out of Jingemia we won't need to. Our expenditure profile isn't that big in the near term.

**VIEWPOINT:** With oil prices at levels we have seen them over the last couple of years, the oil industry at all levels should be in a pretty flush position. How has Pancon found the economic climate within the industry and how has this affected you?

**Svalbe:** Everyone agrees that they've never seen the market as bad. But it is a bit like farmers talking about no rain, or too much rain. Brokers and junior explorers will always be a bit like farmers, they'll always talk about how tough things are. This is part of our business ... we have to run with it.

Investor confidence has been low and it has not been fully offset by higher oil prices. At the end of the day, you will entrust investment to projects with good technical merits and commercial upside will attract investors.

**VIEWPOINT:** Australia's productivity and attractiveness has diminished in recent years as we have seen by a fair number of companies going overseas. What can be done to make Australian exploration more attractive?

**Svalbe:** Give us a better set of rocks that we can explore. I don't think it's a question of making it more attractive, it is already attractive as demonstrated by the levels of involvement by companies from around the world, but we are becoming a mature exploration country with most of the known onshore producing basins, and the main offshore areas, entering a mature exploration phase with respect to world class discoveries. Putting Native Title issues aside, the accessible onshore basins have largely been explored, the Cooper/Eromanga Basin is entering a fairly mature stage. If we look at the sort of prospects that are being drilled right now by the Cooper Energy, Stuart Petroleum, Beach Petroleum-sized companies, they're all in the 10 (million barrels) or less category. Beach's Reg Nelson's correctly points out these field sizes are quite profitable to those size companies.

The onshore basins have been disappointing with respect to recent major discoveries, the Cooper/Eromanga Basin is our premier onshore basin, the Surat has seen its heyday and is fairly mature. The Amadeus has two major fields and so far not much else. The Perth Basin, you've seen the resurgence there, nevertheless after Dongara, the next best would be Beharra Springs and Hovea, certainly the next best after that would be Jingemia and I guess if you take in the offshore, Cliff Head probably comes in second after Dongara. There are more opportunities there I suspect, and there is a resurgence of activity that we've just seen, which will stimulate another wave of exploration, which will probably throw up another two or three discoveries, in addition to ones we have right now.

The onshore Canarvon has been disappointing. It only has one significant discovery there, Tubridgi. The Bonaparte and the Canning have been disappointing apart from small discoveries. The Otway is one that has

panned out a lot better. There's a long way to go and seismic technology will assist in opening up some of those basins as technology develops.

The same approach can be applied to the major offshore Gippsland, Barrow-Dampier and other North West Shelf areas and offshore Australian areas where activity levels are falling because, I believe, of a diminished inventory of quality prospects. That's why Woodside, Santos etc are forced to focus more overseas.

**VIEWPOINT:** So you think all the elephants in Australia have been discovered?

**Svalbe:** Well, not all of them, but the easy ones certainly have ... no question about that. One of the great unknowns is still the Great Australian Bight, despite the apparent failure of Gnarlyknots. The previous three or four wells drilled in that neck of the woods certainly weren't barn burners, but then again Gnarlyknots was defined by new seismic, amplitude and aperture type work, and I'm sure Woodside wouldn't go out there with an expensive rig at those water depths unless they had had a high degree of confidence that they might find oil and gas—let's wait and see.

**VIEWPOINT:** What about the Pedirka?

**Svalbe:** Pedirka's an interesting basin. It's been looked at a number of times by a lot of people. While it has interest, it hasn't got the seismic coverage or the fundamental source rock or seal rocks that make it a lower risk area. Remember, the first oil discovery in the Cooper/Eromanga Basin was made, technically, in the Pedirka Basin, back in the late 60s. It opened up the Cooper/Eromanga Basin.

## The Vital Statistics

**Pancontinental Oil & Gas NL**

**Market Capitalisation: \$5,069,000**

**High price in last six months: \$0.036 cents**

**Latest price: \$0.038**

**Number of shares on issue: 137 mill.**

**Listed options: 22 mill.**

**Top 20 equity holders control 36.53% of the company**

**Directors: H.D. Kennedy (Chairman); A.K.Svalbe (CEO); P.L. Munachen; I.R. Cornelius; L.A. Colless (alternative for Mr Munachen and Mr Cornelius); C. Crabb (alternate for Mr Kennedy).**

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**www.pancon.com.au**



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