

QUARTERLY ACTIVITIES REPORT

December 2003

HIGHLIGHTS

- A Memorandum of Understanding was signed with the Government of Eritrea for the offshore Massawa Block. (Pancontinental 30%).

- Pursuant to an Agreement signed with Woodside Petroleum Ltd for the offshore Kenya L6, L8 and L9 blocks. (Pancontinental 40%) Woodside has completed a 2272 km 2-D seismic survey over the 3 blocks to earn 50% of each permit.
 - Woodside must then elect in respect of each PSC to drill, and if warranted test, one well in the relevant PSC to increase its interest to 65%, or return its 50% interest in that PSC to Pancon and Afrex;
 - Woodside has a further option in respect of each PSC to increase its interest to 75% by drilling, and if warranted testing, a 2nd well;
 - Woodside will cover all other costs in the permits while operating during the earning period;
 - The total Woodside expenditure under the farmin agreement, if all the drilling options are exercised, is estimated to exceed US\$100 million.

- Negotiations with the Governments of Morocco are at an advanced stage for the award of an exploration permit over a technically and commercially attractive offshore area.

INTERNATIONAL PROJECTS.

KENYA PERMITS

Offshore blocks designated L6, L8 and L9

Pancontinental Oil & Gas NL - 40%

In late August 2003 the Company announced that it had signed a Heads of Agreement with Woodside Energy Limited (WPL) with respect to the Company's Kenyan Production Sharing Contracts (PSC) L6, L8 and L9 which cover an area of approximately 21,200 km² (5.3 million acres). The Pancon/Afrex PSC's represent about one third of the entire offshore area of Kenya under petroleum licenses. The majority of the acreage is in water depths less than 1,000 m with only the most south-west corner of L-9 reaching approximately 1,500m. These water depths are comfortably within the range of offshore exploration and production operations.

Under the terms of the staged agreement that will see Woodside become operator, Woodside:

- must shoot at least 2,000km of 2D seismic to earn 50% of PSCs L6, L8 and L9 (indicative cost A\$2-3 million). This operation was completed during the last quarter.
- has the right to then conduct additional infill seismic (2D or 3D) in each of the permits if it so elects;
- must then elect in respect of each PSC to drill, and if warranted test, one well in the relevant PSC to increase its interest to 65%, or return the 50% interest in that PSC back to Pancon and Afrex;
- has a further option in respect of each PSC to increase its interest to 75% by drilling, and if warranted testing, a second well in each permit.

If Woodside exercises all the drilling options, the estimated gross expenditures for the 6 wells, seismic surveys and associated work will probably exceed US\$100 million dollars, the respective equities will be :-

- | | |
|------------|------|
| ○ Pancon | 10%. |
| ○ Afrex | 15%. |
| ○ Woodside | 75% |

These exploration programs and expenditure commitments will fulfil and exceed all the existing Government work obligation schedules for the duration of the earning period, as well as all other cost associated with the permits, at no cost to the Company.

As the first phase of this earning program, Woodside completed acquiring 2,272km of 2-D seismic program in September 2003. These data will be processed and interpreted by the second quarter of 2004, at which time Woodside will elect, for each of the three blocks, to acquire more 2-D or 3-D seismic data, commence a drilling program or return all earned equity in the block to Afrex/Pancontinental.

The Company believes that its L-6, L-8 and L-9 permits are in an optimum location with respect to basin position, source and generation kitchens, structural trends and water depth. This view is supported by results of a comprehensive technical study, conducted by the Joint Venture, which exceeded the original expectations for the area and confirmed the initial assessments which postulated very strong geological similarities to the North West Shelf of Western Australia. These geological similarities were generated by the parallel development of both areas during the break-up and separation of the Gondwana landmass during the Mesozoic and Tertiary Periods. As demonstrated on the North West Shelf, the deposition of favourable sequences of reservoir, source and seal sediments, when combined with optimal structural and thermal regimes for the generation of oil and gas, can give rise to a major petroleum province.

Preliminary mapping of the larger prospects in the permit indicate potential recoverable reserves easily exceeding a billion barrels of oil or several trillion cubic feet of gas. It must be stressed that these are the first preliminary results arising from the study, and the acquisition of infill seismic data to define drilling locations on the mapped prospects, and the drilling of exploration wells are the only means by which these expectations will be confirmed or refuted.

In neighbouring Tanzania, a commercial gas discovery has already been made in a comparable geological setting to the Company's Kenyan permits. The near-shore Songa-Songa gas field, with reserves of one to two trillion cubic feet (TCF), is now under development, including the building of a 300km gas pipeline to the capital Dar-Es-Salaam and the city's power generation station.

MALTA PERMITS

Offshore Area 5; Area 4, Block 3

Pancontinental Oil & Gas NL - 40%

The Joint Venture is proceeding with plans to acquire 250 kms of 2-D seismic data to define the extent of the stacked reefal/biohermal trends present within the Area 5 permit. This survey is planned for the first quarter of 2004 when appropriate weather and a suitable seismic vessel is available in the area. The Joint Venture is confirming with the Government that it has the rights to obtain a Production Sharing Contract (PSC) over any portion of the Areas and the area of the proposed seismic survey. The right to obtaining a PSC is a condition of the June 2003 Farmout Agreement with Sun Resources (Sun), whereby Sun will earn 20% equity in the permit areas by paying the costs of acquisition, processing and interpretation of the seismic data. The Company will retain 32% equity.

The Joint Venture acquired and interpreted 75 kilometres of new seismic data previously which indicated that the minimum areal extent and size of individual, stacked prospects was more than adequate to contain commercially viable potential reserves. The forthcoming survey will further define the size and extent of these geological features, which appear to be very similar in age and geological character to major commercial oil and gas fields in neighbouring offshore Tunisian and Libyan waters.

Included amongst the largest and closest of these neighbouring fields are the offshore Tunisian 300-400 million barrel Ashtart and Isis oil fields, approximately 20 kms west of the permit boundary. The Bouri field, 55 kms to the south in Libyan waters, is reported to have reserves in excess of a billion barrels of oil.

The Malta permits cover an area of approximately 14,800 sq kms (3.7 million acres) and are in water depths which range from 100 to 400 metres. These water depths are considered to be shallow water by current offshore drilling and production technologies.

ERITREA PERMIT

MASSAWA BLOCK OFFSHORE ERITREA, RED SEA.

Pancontinental Oil & Gas NL – 30.0%

Pancontinental announced in early January that it had signed a Memorandum of Understanding (MOU) with the Government of Eritrea over the 11,550 sq km Massawa Block offshore Eritrea, Red Sea. Pancontinental has been joined by Afrex Limited (Afrex 40%) and Hardman Resources Limited (Hardman 30%) in this

venture. Hardman has agreed to “carry” the other two joint venture parties for the first US\$50,000 of expenditure.

The MOU covers the principal terms negotiated over the last 12 months with the Government for a Production Sharing Contract (PSC) over the Massawa Block. Terms of the Production Sharing Contract (PSC) will be finalised over the next six months, giving the joint venture exclusive rights to explore for hydrocarbons in the Massawa Block for up to 7 years.

The Massawa Block lies in the salt basin of the southern Red Sea. Salt basins are amongst the most productive in the world. Other prolific oil bearing salt basins include the Gulf Coast province of the Gulf of Mexico, offshore Nigeria in West Africa, the North Sea and more recently offshore Mauritania, where Woodside and Hardman have made significant commercial oil and gas discoveries.

To the north of the Massawa Block, in offshore Egypt, a large number of commercial oil and gas fields have been discovered over the past 20 years. These are supported by a sophisticated production and transport infrastructure.

Closer to the Massawa Block, an exploration well drilled to the north in Eritrean waters “blew-out”, with large volumes of gas flowing uncontrolled to the surface. It is believed that an appraisal of this discovery is planned by another operator in the near future.

In the Massawa Block and surrounding areas major multinational oil companies have previously identified a number of large, seismically defined, salt related prospects, and oil has already been seen in a number of surface oil seeps in the Dahlak Islands. The joint venture will assess these prospects as potential drilling targets.

The exploration programme in the Massawa Block will commence with re-mapping of the existing seismic data (and seismic reprocessing if necessary) followed by the acquisition of new seismic data. The joint venture will then consider inviting farminees to earn equity in the Block by drilling one or more exploration wells.

Eritrea has no indigenous hydrocarbon production. Much of the earlier exploration work in this very interesting petroleum province was curtailed by a protracted and now settled Eritrean/Ethiopian border conflict.

Mining companies associated with Pancontinental are carrying out mineral exploration activities onshore Eritrea and have established an excellent working relationship with the reputable, energetic and professional Ministry and Government. The Government is keen to advance the country’s economy by promoting the development of energy resources following the cessation of hostilities 3 years ago.

AUSTRALIAN PROJECTS

WA-312-P OFFSHORE BARROW DAMPIER SUB-BASIN, NORTHWEST SHELF

Pancontinental Oil & Gas NL – 33.3%

WA-312-P has an area of 1850 sq kms, and is situated approximately 50 kms to the north of Karratha. The Permit is less than 1 kilometer south of the 75 million barrels recoverable Wandoo Oil Field, currently

producing approx 20,000 barrels of oil per day, and the Hampton-1 gas discovery, and 11 kms to the east of the 55 million barrels recoverable Stag Oil Field, currently producing 15,000 barrels of oil per day.

An inventory of attractive drillable prospects has been defined and the Joint Venture has commenced proceedings to attract parties willing to earn equity in the permit by funding exploration well drilling costs.

The potential unrisks recoverable reserves of the top 5 ranked prospects ranges from 15 to 144 million barrels. The Joint Venture believes that such undrilled reserves would be of interest to the Joint Ventures operating the neighboring oil producing platforms, and transport and other infrastructure facilities, as the relevant reserves are in decline. The tie-in of new discoveries proximal to these existing facilities can be achieved at low incremental cost.

Up to nineteen leads and prospects have been mapped by the Joint venture, with several being at the stratigraphic level of the neighboring Wandoo and Stag producing oil fields. The balance of prospects is at deeper stratigraphic levels, at which commercial discoveries have been made in neighboring areas of the basin.

WA-340-P OFFSHORE BARROW DAMPIER SUB-BASIN, NORTHWEST SHELF

Pancontinental Oil & Gas NL – 20.0%

WA-349-P is located on the southern margin of the Dampier Sub-Basin, 35 km northwest of the Burrup Peninsula.

The permit has been granted for a period of six years and is adjacent to and south of WA-312P, where Pancontinental has a 33.3% working interest. Application for the WA-340-P permit was motivated by the recognition of a number of leads, having significant hydrocarbon potential, that were trending south-westwards across the WA-312-P permit boundary into the WA-340-P area. In addition, several other interesting leads were recognised within the WA-340-P area at the same stratigraphic levels as in the WA-312-P permit

Work has now commenced to further evaluate these attractive and interesting leads by reprocessing the existing seismic data in order to mature them for farmout and early drilling. Reprocessing of the data is on schedule and well advanced, with interpretation due to commence in the coming quarter.

EP 414 ONSHORE PERTH BASIN

Pancontinental Oil & Gas NL – 2.78%

.No exploration work was carried out in EP 414 during the period.

EP 104 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL – 8.0%

Point Torment -1, 20 kms north of Derby in EP-104, was drilled in 1992 and tested gas at 4.3 million cubic feet of gas per day. At that time there was no significant gas market in the Kimberley region, but that is now changing with a growing power generation demand in the area, coupled with a significant cost saving conversion of existing facilities from diesel to LNG.

The Joint Venture has negotiated an agreement for the sale of Point Torment gas reserves to LNG International (LNGI). Pursuant to the Agreement, LNGI will purchase 6.0 million cubic feet of gas per day at a price of Aus\$2.70 per gigajoule (one gigajoule is equivalent to approximately 930 cubic feet of gas) at the wellhead and adjusted to the Consumer Price Index for the life of the field. LNGI will build a mini LNG plant in Derby to produce and transport LNG to power generators in the Kimberley. The Agreement is subject to the Joint Venture drilling and production testing an appraisal well on the Point Torment structure to establish at least 35 billion cubic feet (BCF) of proven gas reserves in the field. Subject to farmout, this appraisal well is planned to be drilled in June-July 2004, some 5.5 kms to the north west of the Point Torment-1 well and some 70 metres updip.

Based on current mapping, the Point Torment field is estimated to have potential recoverable gas reserves of 80 BCF. The gas is condensate, which would be stripped to provide additional cash flow. A deeper oil pool of up to 10 million barrels potential reserves was also indicated by the Point Torment -1 well.

As reported earlier, the Joint Venture has been granted a Retention Lease over the Point Torment Gas field, providing long term tenure over the gas resource.

The Joint Venture has been also been advised that the granting of the Production Licence over the West Kora Oil Field (Pancon 12%) has made substantial progress through the Native Title issues. There is now a strong expectation that the Licence could be awarded in the near term.

EP 110 ONSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL – 10%

No exploration work was carried out in EP110 during the period.

The Joint venture has negotiated to participate in a neighbouring graticular block, recently awarded by the WA State Government, but subject to the procedural clearance of Native Title issues. This block is interpreted to contain the crestal location of the Jasper prospect, on which the Jasper 1 well, within EP110, was drilled in the late 1980's. Jasper 1 recorded strong hydrocarbon shows within a well developed and thick Birdrong sandstone reservoir, interpreted to indicate that the well was drilled down-dip of a possible hydrocarbon accumulation which is located in a more crestal position. Once the Native Title process has been completed, seismic reprocessing and remapping will be carried out to determine the size and location of the structural crest of the Jasper prospect. If the strong hydrocarbon shows in the down-dip Jasper 1 well are close to an oil/water contact, the prospect has potential to contain recoverable reserves in the vicinity of 20 million barrels. Such reserves are adequate for commerciality given the shallow water and depth to the target horizon.

Subject to final documentation, the Company will increase equity in the permit from 10% to 25% as a consequence of the withdrawal of some parties.

EP 406 OFFSHORE SHARK BAY

Pancontinental Oil & Gas NL – 5%

No exploration work was carried out in EP-406 during the year, as it is still subject to the Shark Bay Marine Park Heritage Study and forthcoming environmental operational guidelines that are expected to flow from that study.

NEW ZEALAND PROJECTS
PEP 38716 ONSHORE TARANAKI BASIN

Pancontinental Oil & Gas NL – 7.56%

The purchase of the Horizon Oil NL (Horizon) interests in the permit by Indo Pacific Energy Ltd (Indo), the subsequent appointment of Indo as operator and the purchase of Preussag Energy by the Austrian multinational OMV (Australia) Pty Ltd, has interrupted both the technical assessment and the ongoing exploration of the permit over the past quarter.

PEP 38716 hosts all or part of three structures related to the eastern bounding fault of the Taranaki Basin that are all similar to that of the major Rimu/Kauri oil and gas discovery 18 kilometres south. In addition to the Huinga prospect, there is the Huinga South prospect, entirely within the Permit, and the Makino prospect, which is partly within the Permit but mostly within PEP38728. The Makino-1 well, drilled in early 2002, intersected a reported sub-commercial 30 meter gross hydrocarbon column in Kapuni sandstones, the significance of which, together with the up-dip Tariki sandstone target, is yet to be fully evaluated.

The reprocessing of existing seismic data in the area of Huinga and Huinga South prospects was commenced earlier in the year with the objective of producing better images at the level of the main zones of interest. If successful, this reprocessing will provide a better understanding of the trapping geometries within the overthrust structural trend in the PEP 38716 permit and along the eastern margin of the Taranaki Basin. An agreement to exchange data between the Huinga and neighbouring Makino Joint Venture will assist these studies.

Given the recovered oil, the strong oil and gas shows at Huinga, and the indicated oil and gas at the Makino-1 discovery immediately north of the major Rimu/Kauri oil and gas field, the Company believes that the probability of a major petroleum accumulation in the Huinga, Huinga South and the extensions of the Makino prospect into PEP 38716 has been significantly increased and justifies further investment.

This justification is enhanced by the fact that financial incentives to explore in New Zealand have risen considerably with the realization by Government and Industry that, with the premature depletion of the offshore Maui Gas Field, and the inability of remaining fields to meet the commercial, industrial and domestic consumer demands, gas prices are expected to rise considerably throughout New Zealand.

One of the main options being considered by Government is the importing of liquefied natural gas (LNG). To implement this, a substantial increase in historical gas prices will be needed to accommodate the high capital and other costs associated with such a project. Obviously, this environment is, and would be, highly favourable for successful local explorers to supply gas (and oil) into the local market.

PEP 38330 ONSHORE EASTCOAST BASIN

Pancontinental Oil & Gas NL – 42.87 %

After the drilling of Waingaromia 2 last year, the Joint venture has reviewed the range of existing prospects in the light of the new well information, and defined an ongoing exploration program for the permit.

To assist in the planning for new seismic surveys, a review of seismic acquisition parameters and energy source sizes was commenced. In addition, the reprocessing of existing seismic data over two attractive prospects in the north of the permit has commenced to improve data quality. These prospects will be remapped and integrated with geological information to assess their viability for drilling.

NEW VENTURES

The Company continues to review all Australasian onshore and offshore acreage gazettals, both at Federal and State Government levels. In addition, the Company is strongly focused on overseas opportunities, especially East and North Africa.

Discussions with the Moroccan Government are well advanced, and the Company hopes that it will be able to announce a Moroccan permit in the near future. The Moroccan offshore area of interest meets the technical and commercial criteria established by the Company in its international ventures.

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It is advised that in accordance with the Australian Stock Exchange Limited Listing Rule 5.10, 5.11, 5.12 and 5.13 that the summary report on the oil and gas projects is based on information compiled by Mr A K Svalbe, BSc (Hons), AAPG, ASEG, FESWA, PESA, Chief Executive Officer of Pancontinental Oil & Gas NL and accurately reflects the information compiled by Mr Svalbe.

Appendix 5B

Mining exploration entity quarterly report

Name of entity

PANCONTINENTAL OIL & GAS NL

ABN

95 003 029 543

Quarter ended ("current quarter")

31 December 2003

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 Months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales (petroleum) and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(97)	(243)
(b) development		-
(c) production		-
(d) administration	(186)	(353)
1.3 Dividends received		-
1.4 Interest and other items of a similar nature received	5	5
1.5 Interest and other costs of finance paid		-
1.6 Income taxes paid		-
1.7 Other (provide details if material)		-
Net operating cash flows	(278)	(591)
Cash flows related to investing activities		
1.8 Payment for purchases of		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of		
(a) prospects – EP 413		486
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	486
1.13 Total operating and investing cash flows (carried forward)	(278)	(105)
1.13 Total operating and investing cash flows (brought forward)	(278)	(105)

Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	540	540
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other –costs of issue	(27)	(27)
		513	513
Net increase (decrease) in cash held			408
1.20	Cash at beginning of quarter/year to date	247	74
1.21	Exchange rate adjustments to Item 1.20	-	-
1.22	Cash at end of quarter	482	482

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	138
1.24	Aggregate amount of loans to the parties included in item 1.10	-

Explanation necessary for an understanding of the transactions

Payments to companies associated with directors for:	\$000s
Corporate consulting fees	40
Administration/secretarial fees	57
Technical & management salary (incl. PAYG & superannuation)	<u>41</u>
	138

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Kenya – PSC’s L-6,8 &9. Woodside Energy Ltd advises that expenditures during the quarter amounted to \$457,467. These initial expenditures were incurred pursuant to the farmin agreement in which it may earn up to a maximum of 75% interest. (Refer text of the Sept. ASX quarterly for complete details of farmin arrangements)

Financing facilities available

add notes as necessary for an understanding of the position

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outlays for next quarter

	\$A'000
4.1 Exploration and evaluation	170
4.2 Development	-
TOTAL	170

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the statement of cash flows) to the related items in the accounts is follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	482	247
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other		
Total: cash at end of quarter (item1.22)	482	247

Changes in interests in petroleum permits

	Permit Reference	Nature of Interest [note (2)]	Interest at Beginning of Quarter	Interest at End of Quarter
Eritrea	Massawa Block – Offshore, MOU	Joint venture	Nil	30%

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preferences securities (description)				
7.2 Changes during quarter (a) increases through issues (b) decreases through returns of capital, buybacks, redemptions				
7.3 Ordinary securities	154,795,117	154,795,117		
7.4 Changes during quarter (a) increases through issues (b) decreases through returns of capital, buybacks	9,000,000	9,000,000	\$0.06	\$0.06
7.5 Convertible debt securities (description)				
7.6 Changes during quarter (a) increases through issues (b) decreases through securities matured, converted				
7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
<i>Public options PCLOA</i>	24,021,208	24,021,208	15 / 20cents	31/03/2005
<i>Directors options</i>	1,400,000		20cents	02/02/2005
<i>Directors options</i>	1,600,000		20cents	06/12/2006
<i>Directors and staff options</i>	4,025,000		8cents	27/11/2007
	3,625,000		10 cents	31/12/2008
7.8 Issued during quarter <i>Directors and staff options</i>	3,625,000		10 cents	3/12/2008
7.9 Exercised during quarter <i>Public options PCLOA</i>	Nil	Nil		
7.10 Expired during quarter	-	-	-	-
7.11 Debentures (totals only)				

PANCONTINENTAL OIL & GAS NL – PETROLEUM PERMIT SCHEDULE
as at 31 December 2003

Project	Permit reference	Interest
Petroleum prospects		
Western Australia	EP 104 (R4)	8.0 %
	EP 110	10.0%
	EP 414	2.78%
	EP 406	5%
	WA-312-P	33.3%
	WA-340-P	20%
New Zealand	PEP 38330	42.87%
	PEP 38716	7.56%
Malta	Area 5	40% Subject to JV- diluting to 32%
	Block 3 of Area 4	40% “ “
Kenya	L6	40% Subject to JV – diluting to 10%
	L8	40% “ “
	L9	40% “ “
Eritrea	Massawa Block – offshore MOU	30%