

9 December 2013

Pancontinental

(PCL AU, last price A\$0.068/sh, market cap \$71m)

SUBJECT: Pancontinental announced the Sunbird prospect in the L10A block offshore Kenya will be drilled mid-January 2014 using the drillship Deepsea Metro-1 that is currently drilling in Ophir's Block 7 offshore Tanzania. Pancontinental also announced that Premier Oil has withdrawn from the L10A block, and as a result Pancontinental's interest in the L10A block has increased from 15% to 18.75%.

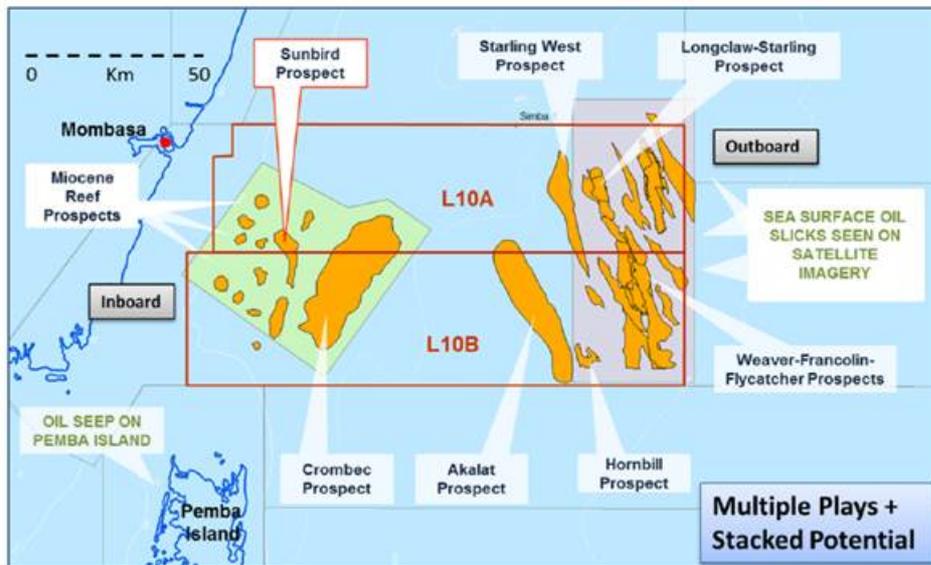
OUR VIEW: The crux of Pancontinental's investment case rests on:

- 1) Drilling of two wells with BG as partner in Blocks L10A and L10B offshore Kenya.** The first well in January 2014 will target the Sunbird prospect that is a shallower, oil-prone, Miocene reef. The well is targeting a different play than drilled by Apache in Block L8 offshore Kenya. Apache's block outboard was gassy, proven by the non-commercial Mbawa discovery last year. Pancontinental's second well is expected to be in mid-late 2014.
- 2) Pancontinental is comfortably funded for the first well** on the Sunbird prospect offshore Kenya in January 2014 and looks to be funded for the second well later in 2014: \$31m cash with no debt and the Sunbird well is estimated to cost \$15m net. Pancontinental is currently farming out its L6 block offshore Kenya and has \$13m of back costs in the block to potentially recover from the farm-out. The next well offshore Kenya will be likely in Q3, so Pancontinental has got time to look for funding options.
- 3) A 200mmbbl oil discovery could theoretically add 200% to Pancontinental's market cap.**

DETAILS:

- **Block L10A offshore Kenya drilling to start mid-January 2014.** The joint venture, led by BG, will drill the Sunbird prospect in block L10A mid-January targeting oil using the drillship Deepsea Metro-1 that is currently drilling in Ophir's Block 7 offshore Tanzania. Drilling is expected to take 50-60 days. A second well is expected mid-late 2014 on the L10A or L10B block. BG expects over 1bnboe potential net unrisked in the two blocks L10A and L10B. Pancontinental owns a 18.75% interest in L10A and a 15% interest in L10B.
- **Sunbird prospect is a shallower, oil-prone, Miocene reef.** The prospect covers an area of 73 sq km. The well is expected to cost \$80m gross (Pancontinental's 18.75% share is \$15m). The well is targeting a different play than drilled by Apache in Block L8 offshore Kenya. Apache's block outboard was gassy, proven by the non-commercial Mbawa discovery last year. No resource estimate for the Sunbird prospect is mentioned, but a 200mmbbl oil discovery will be worth around A\$0.12/sh on an unrisked basis. Pancontinental has around 20 other buried reefs and reef-like features over its blocks in Kenya.
- **Premier Oil has withdrawn from the L10A block.** Premier had 20% interest in the block and has now withdrawn from the block. As a result, BG has increased its interest in the block from 45% to 50% and is still the operator. PTTEP now owns 31.25% (up from 25%) and Pancontinental has 18.75% (up from 15%).
- **Cash:** Pancontinental had A\$33m (or US\$31.5m) of cash end September. Pancontinental does not have any debt.

- Farmout of L6 offshore Kenya will likely provide further support.** FAR (60%) and Pancontinental (40%) are carrying out a farm-out process for its L6 block offshore Kenya. Pancon has \$13m of back costs and is looking to recover these costs and get carry on exploration well(s). The companies expect to drill a well in the block in late 2014. L6 block is estimated to hold c3.9bnboe of gross resources.



Source: Pancontinental

Tao Ly | Head of Oil & Gas Research (Europe)
 Direct: +44 20 7647 2819 | Mobile: +44 77 1406 1170 | E&P@gmpeurope.com

Melanie Savage, CFA | Oil & Gas Equity Research (Europe)
 Direct: +44 20 7647 2822 | Mobile: +44 77 1406 1062 | E&P@gmpeurope.com

Ritesh Gaggar | Oil & Gas Equity Research (Europe)
 Direct: +44 20 7016 1902 | Mobile: +44 77 1406 1059 | E&P@gmpeurope.com

Robin Haworth | Oil & Gas Equity Research (Europe)
 Direct: +44 20 7647 2821 | Mobile: +44 77 3999 0742 | E&P@gmpeurope.com

GMP Securities Europe LLP | Stratton House, 5 Stratton Street | London, W1J 8LA

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