

Share Price:	\$0.060
12mth Price Target:	\$0.20

## PANCONTINENTAL OIL AND GAS NL

### Neighbourhood Watch, Own Drilling Very Soon

The Pancontinental Oil and Gas NL ("Pancontinental", "PCL", "Company") acreage in East and West Africa is currently surrounded by drilling activity.

In Kenya, Anadarko is exploring for oil and is drilling a very large Cretaceous sandstone fan (Kiboko prospect) in block L11B which is directly east of Pancontinental's L10A and L10B blocks. PCL plans to drill two wells with its partners in these permits from the fourth quarter of 2013. One of the wells is expected to be on a Miocene reef that is a play-opener for East Africa.

In Namibia, HRT has completed its second well Murombe 1 which is immediately south of Pancontinental's Namibian acreage. Similarly to HRT's earlier well, Wingat 1, it failed due to lack of significant reservoir development at the primary target depth which had been defined by a significant 3D seismic amplitude anomaly. As in the earlier well, good quality hydrocarbon source rocks were intersected but no live oil was seen (Wingat recovered good quality oil from a thin reservoir sequence). HRT's third and final well, Moosehead 1 (300km to south of PCL permit), is spudding soon. Independent consulting firm DeGolyer and MacNaughton has estimated from preliminary 2D seismic interpretation work, completed by PCL, a resource potential net to PCL of 7.4 billion bbls P50 within its 95% controlled EL 0037.

Finally, Repsol has farmed-into EL 0010 which is 50 kilometres NW of PCL's EL 0037 and is planning to spud its Delta Cretaceous fan prospect (best estimate resources of 1.7 billion bbls) in early 2014.

### Direct exposure to 3 (maybe 4) East Africa wells

In Kenya, PCL is planning to be involved in a four well campaign. Two, as mentioned above, will be in L10A and 10B (indicative timeline is for the end of 2013). The third well (subject to final joint venture approval) will be in L8 (the L8 Kipungu prospect is a Lower Cretaceous fan play, according to Apache who is the operator of the block) and we expect drilling in mid-2014.

The fourth well will be in L6 (this could be another Miocene Reef test on the Kifaru prospect). The joint venture is looking to drill under a farmout, which we are still awaiting, and so drill timing in uncertain.

### Recommendation – Speculative Buy

PCL should have direct exposure to three wells offshore East Africa in 2013/2014 (L10A, 10B, L8) and potentially four (depends on L6 timing).

The first to be drilled are L10A and L10B which are both important value drivers (combined unrisks value ~162cps) and BG has announced it plans to drill two wells in the blocks commencing in late 2013.

In the meantime, a farmout of L6 could be a catalyst along with the PCL's neighbouring drilling (first in Namibia, then in Kenya). Hartleys maintains our Speculative Buy recommendation with a price target of 20cps.

#### Hartleys Brief Investment Conclusion

PCL holds a large acreage position offshore Kenya. PCL is participating in up to four wells offshore Kenya over the next 12 to 18 months. PCL also holds acreage in Namibia. Plenty of activity in Kenya and Namibia to provide catalysts for PCL.

#### Key Personnel

David Kennedy	Chairman
Barry Rushworth	CEO
Ernest Myers	Finance Director
Anthony Maslin	Non Exec Director

#### Top Shareholders:

Sundowner International Limited	11.6%
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#### Company Address:

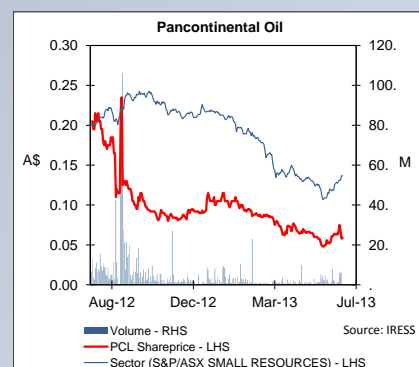
Ground Floor, 288 Stirling St  
Perth, WA, 6000

Valuation:	\$0.62
Issued Capital:	1151.0m
- fully diluted	1156.0m
Market Cap:	\$69.1m
- fully diluted	\$69.4m
Cash Equiv (Mar '13):	\$35.3m
Debt (Mar '13):	\$0.0m

#### Valuation Summary

Asset	Value A\$m	Risked cps	Unrisks cps
<b>Production</b>			
<b>Exploration</b>			
L8 (10%)	121.3	11	66
L6 (20%)	250.5	22	373
L10A (15%)	93.8	8	81
L10B (15%)	93.8	8	81
EL 0037 (35%)	131.32	11	570
Cash	35.3	3	3
Corporate/Other	-6.7	-0.6	5
<b>Total</b>	<b>719.1</b>	<b>62</b>	<b>1,181</b>

Source: Hartleys Research



#### Authors:

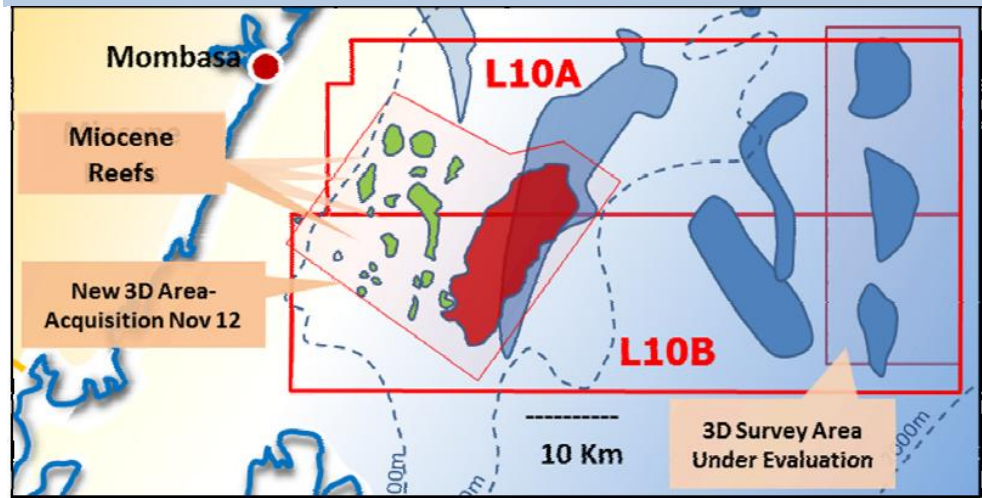
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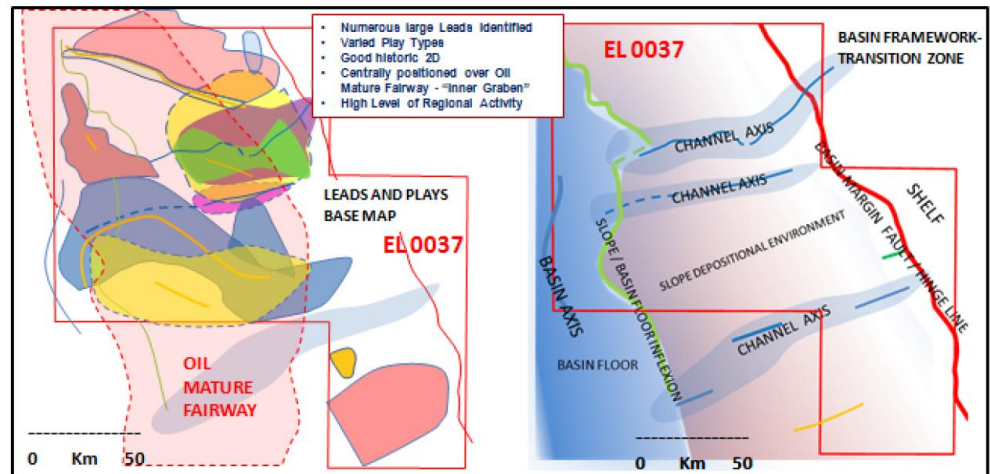
# MODEL

<b>Pancontinental Oil and Gas PCL</b>		<b>Share Price</b>		<b>23 Jul 13</b>				
		<b>\$0.060</b>		<b>Speculative Buy</b>				
<b>Key Market Information</b>				<b>Directors</b>				
<b>Share Price</b>		<b>\$0.060</b>		<b>Company Details</b>				
Market Capitalisation		\$69m		David Kennedy	Chairman			
Net Debt (cash)		-\$35.3m		Barry Rushworth	CEO			
Issued Capital		1151.0m		Ernest Myers	Finance Director			
ITM options		0.0m		Anthony Maslin	Non Exec Director			
Options		5.0m @ A\$0.13						
Issued Capital (fully diluted ITM options)		1151.0m						
Issued Capital (fully diluted all options)		1156.0m						
<b>EV</b>		<b>\$33.8m</b>						
<b>Valuation</b>		<b>\$0.62</b>						
<b>12Mth Price Target</b>		<b>\$0.20</b>						
<b>Projects</b>				<b>Top Shareholders</b>				
	<b>Interest</b>	<b>Location</b>	<b>Commodity</b>	<b>m shs</b>	<b>%</b>			
<b>L6</b>	40%	Kenya	Oil/Gas	Sundowner International Limited	134.1 11.6%			
<b>L8</b>	15%	Kenya	Oil/Gas					
<b>L10A/10B</b>	15%	Kenya	Oil/Gas					
<b>EL0037</b>	95%	Namibia	Oil/Gas					
<b>Resources</b>				<b>Investment Summary</b>				
	<b>Oil</b>	<b>Gas</b>	<b>Condensate</b>					
	<b>mmbbl</b>	<b>bcf</b>	<b>mmbbl</b>					
<b>P50</b>								
EL0037	7,426	-	-	Pancontinental has a large acreage position in Kenya and has direct exposure to two wells being drilled offshore commencing 4Q13. In addition to this, Anadarko is currently drilling nearby. The Company's Namibian acreage is also exposed to nearby drilling with HRT currently drilling south of the permit.				
L6	1,502	-	-					
<b>P&amp;L</b>				<b>Expected Newsflow</b>				
	<b>FY2013F</b>	<b>FY2014F</b>	<b>FY2015F</b>		<b>Project</b>			
<b>Net Revenue</b>	na	na	na	3Q 13	Second well decision in L8 Kenya			
<b>Total Costs</b>	na	na	na	3Q 13	Results from Anadarko well Kenya			
<b>EBITDA</b>	na	na	na	3Q 13	Results from HRT well Namibia			
<b>Deprec/Amort</b>	na	na	na	4Q 13	Drilling in L10A/10B Kenya			
<b>EBIT</b>	na	na	na					
<b>Net Interest</b>	na	na	na					
<b>Pre-Tax Profit</b>	na	na	na					
<b>Tax Expense</b>	na	na	na					
<b>NPAT</b>	loss	loss	loss					
<b>Abnormal Items</b>	na	na	na					
<b>Reported Profit</b>	loss	loss	loss					
				<b>Unpaid Capital</b>				
				<b>No (m)</b>	<b>\$ (m)</b>	<b>Ave Pr</b>	<b>% Ord</b>	
				30-Jun-15	2.3	0.3	0.13	0.2%
				30-Jun-16	-	-	0.00	0.0%
				30-Jun-17	2.8	0.3	0.12	0.2%
				<b>Comments</b>				
				Plenty of catalysts to push the share price higher as the surrounding explorers complete their wells.				
Head of Research: Trent Barnett Phone: 08 9268 3052				Last Updated: 23/07/2013				
Sources: IRESS, Company Information, Hartleys Research								

Fig. 1: PCL Kenya L10A/B (15%) & Namibia EL0037 (95%) Permits



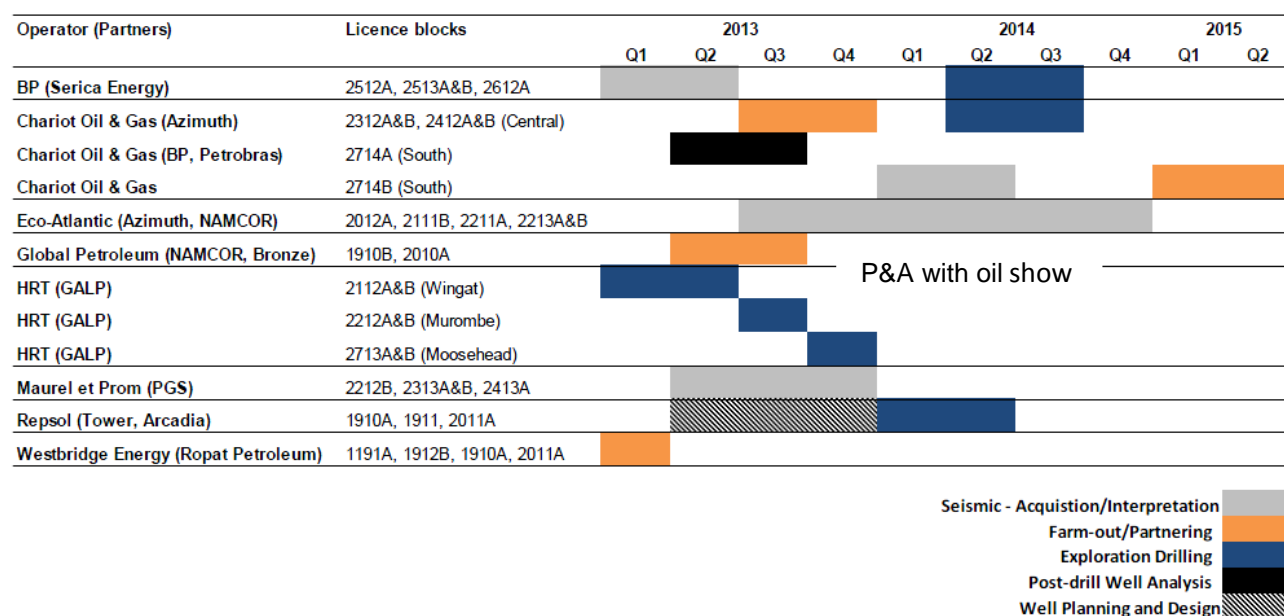
Offshore Kenya Permits extend into the Cretaceous reservoir fan play



Offshore Namibia Permit extends over shelf break and into deep water

Source: Hartleys, PCL

Fig. 2: Drilling timetable offshore Namibia



Source: Tower Resources 13 May 2013 Frontier African Exploration Presentation

## VALUATION SUMMARY

Fig. 3: PCL Exploration Prospect and leads values

Permit / Interest	Country	Operator	Net Recoverable Potential	NPV per Unit (\$)	POS	Risked Value (\$ millions)	(cps)	Unrisked Value (cps)
<b>Production Assets</b>								
None								
<b>Exploration Assets</b>								
L8 (10%)*	Kenya	Apache	200 mmboe <sup>^</sup>	0.75	20%	121	11	66
L6 (20%)	Kenya	FAR	1,107 mmboe <sup>^^</sup>	0.5	6%	250	22	373
L10A (15%)	Kenya	BG	275 mmboe <sup>^^</sup>	0.5	10%	94	8	81
L10B (15%)	Kenya	BG	275 mmboe <sup>^^</sup>	0.5	10%	94	8	81
EL 0037 (95%)**	Namibia	PCL	657 mmboe <sup>^^</sup>	10	2%	131	11	570
Baniyas (20%)	Australia	Strike	5 mmboe <sup>^^</sup>	15	5%	4	0	6
<b>Total</b>			<b>2,519 boe</b>			<b>694</b>	<b>60</b>	<b>1,178</b>

\* Assumes Tullow pays \$6m towards 2nd well to take 5%

\*\* Value based only on possible volume from Lead N

<sup>^</sup> Based on gas case for Mbawa and weighted potential for oil or gas on 50/50 basis<sup>^^</sup> BOE based on weighted potential for oil or gas on 50/50 basis

Source: Hartleys

## PRICE TARGET

We maintain our Speculative Buy recommendation with a price target of 20cps.

**Fig. 4: Key assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Exploration Risk	Moderate	Moderate-High	The recent success at Mbawa has significantly de-risked our valuation for PCL and increased the likelihood of further discoveries on its acreage.
Schedule Risk	Low	Low-Moderate	Now that there has been a discovery, we predict that drilling activity will significantly increase offshore Kenya, with at least 4 wells expected in 2013.
Funding Risk	Low	Low-Moderate	PCL has \$35m in cash and is fully funded for the foreseeable future.
Valuation Risk	Low	Low-Moderate	Our exploration valuation includes a risked metric based on prospect sizes. It assumes that the market will recognise a portion of potential value before the results of a well are known. In most cases, we include ~10% of potential prospect value in our valuations. However, this may increase or decrease depending on the type of well drilled and confidence in the prospect

**Conclusion**

*We believe the assumptions we have used have a low-moderate risk of not being achieved, which would have a moderate impact on our risked valuation.*

Source: Hartleys

## RISKS

The key risks for Pancontinental Oil and Gas NL (like most oil & gas exploration companies) is making an economic discovery and obtaining the funding for ongoing exploration. Other risks include delays, key person risk, country/sovereign risk, weather, JV partner obligations, cost inflation. Investing in explorers is very risky given the exploration value of the company in essence assumes that the market will recognise a portion of potential value before the results of an exploration program are known, conscious that the ultimate chance of success is low (typically 1%-20%) and that failure is much more likely, in most cases. Other risks are earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, resource estimate errors and management performance and contract negotiation skills. High financial leverage (if it exists at that time) would add to the problem.

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## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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