

Pancontinental Oil & Gas

(PCL-ASX: A\$0.11)

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BUY, Venture Risk*

12-month target price: N/A

Neighbours Drilling Offshore Kenya & Namibia

Market Data & Valuation			
Market Price as of Jan 31/12			A\$0.11
52 week low - high		A\$0.08	A\$0.24
30-day avg volume			2,380,230
Rating			Buy
Shares O/S (basic)	mn		1,151.0
Shares O/S (dil.)	mn		1,156.0
% held insiders			15%
Market Cap	mn		A\$126.6
Net Cash as of 4Q12	mn		A\$40.96

Source: Company reports, Dundee Securities estimates, Factset

Conclusion:

- Drilling has commenced on the L11B block offshore Kenya, and is due to commence shortly on the Pel-23 license offshore Namibia. Both wells are on blocks adjacent to Pancontinental's assets, and we believe will therefore likely be material catalysts for the company, ahead of its own potential drilling campaign set to commence later this year.
- With \$40 million in cash, we believe the company is well placed to undertake further drilling on Block L10 and L8, in addition to L6 (assuming a successful farm-down). We maintain our BUY rating.

Kenya - Anadarko Spuds Adjacent Well, Results 2-3Q13

In Kenya, operator Anadarko spud the Kiboko prospect in mid-January on Block L11B. L11B is located immediately east of Pancontinental's Blocks L10A & B. Kiboko, the second modern exploration well to be drilled offshore Kenya following Pancontinental's Mbawa discovery of mid-2012, is believed to lie in water depth of about 2,500 m with a TD of over 6,500 m (over double that of Mbawa) into the Tertiary, Cretaceous and potentially Jurassic zones.

It is believed that only the top-hole of Kiboko will be drilled, prior to the rig moving north to Block L7 to fully drill a second wildcat exploration well - the Kubwa prospect. Thereafter, the rig would return to drill Kiboko to TD.

L7 lies east and northeast of Pancontinental's L6 and L8 blocks. Given the depth, we would expect results from the wells in Q2 and Q3 respectively. We believe both could be material catalysts for Pancontinental - one of only two juniors remaining with a material, high-impact, acreage position offshore East Africa.

See Exhibit 1 for offshore Kenya map.

Namibia - HRT To Spud Adjacent Well Within 1Q13

Offshore Namibia, HRT and partner GALP are due to spud the first of two wells on the Pel-23 license by the end of 1Q13 (rig on route). Pel-23 is located directly southwest of EL 0037, in which Pancontinental holds a 95% operated interest. Located within the Walvis Basin, we believe these two wells could significantly impact the prospects for Pancontinental's adjacent block, especially in light the disappointing results of earlier wells drilled in the region.

See Exhibit 2 for offshore Namibia map.

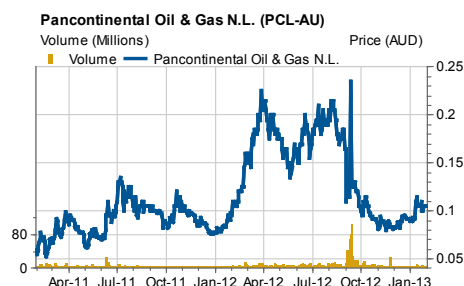
Upcoming Pancontinental Catalysts:

- L10A & B: Process and interpret recent 3D seismic, potential 2-well programme later this year.
- L8: Mbawa assessment ongoing, a second well targeting a deeper play type is being considered.
- L6: Seeking farm-in partner, planning for 2013 well has commenced.

A overview of the company's prospects can be found within this report.

Note: due to PCL's early stage exploration nature, and uncertainty with respect to firm drilling timing/prospects, we do not currently set a target price.

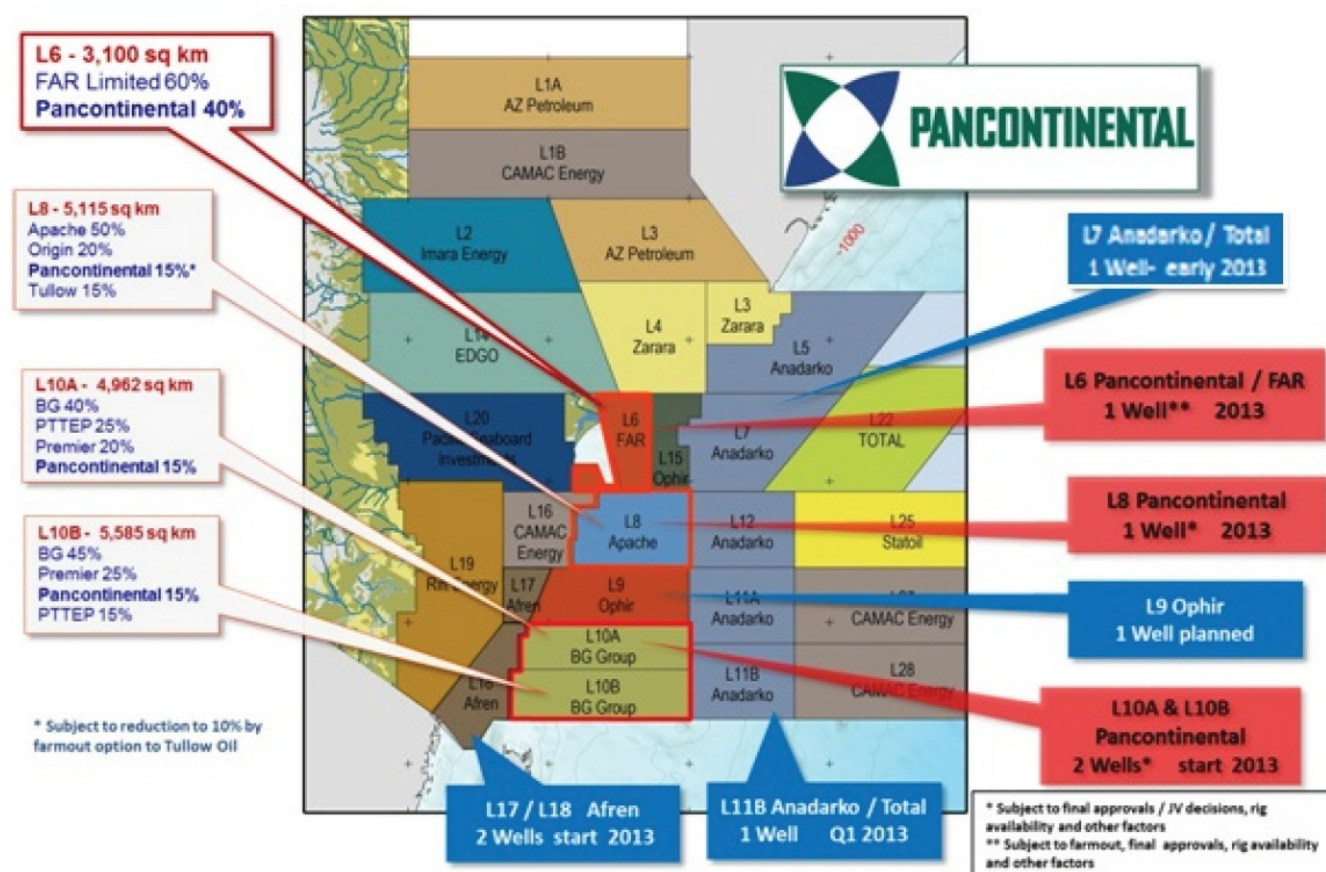
PCL: Price/Volume Chart



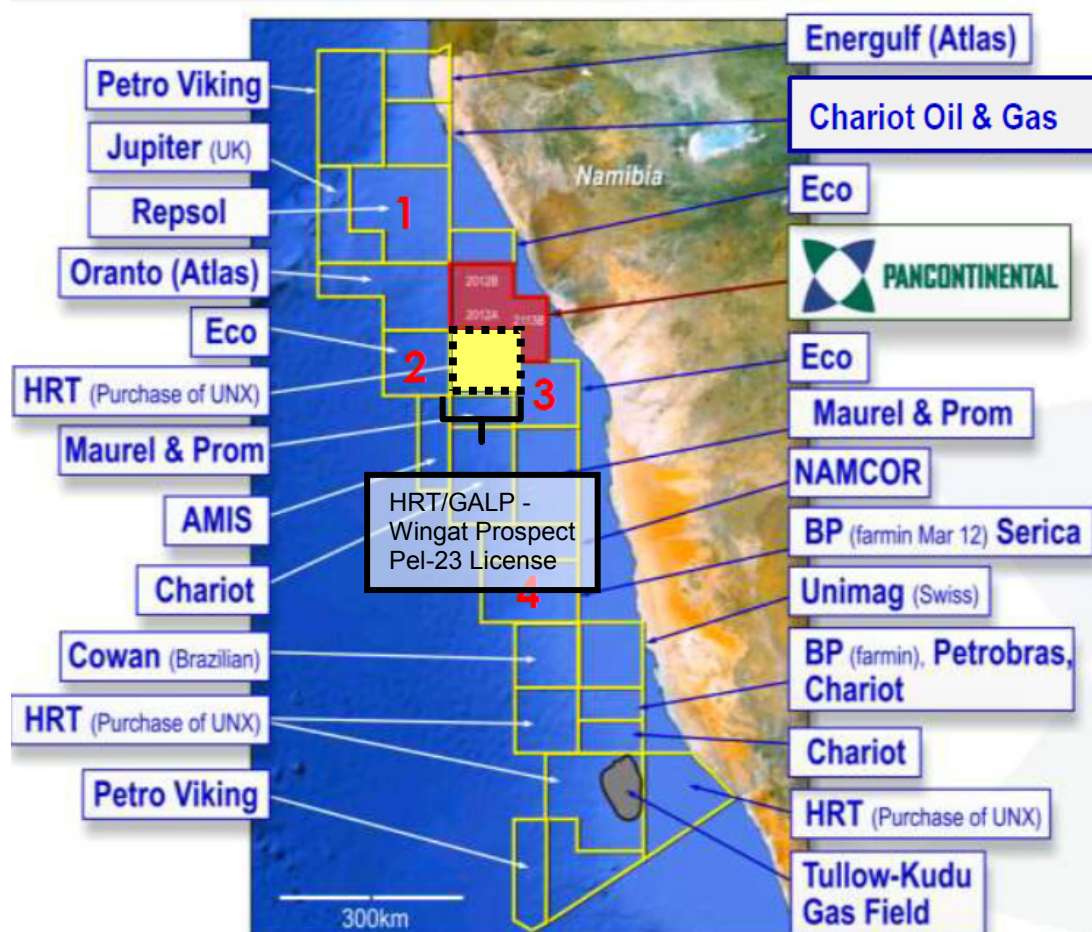
Source: FactSet

Company Description

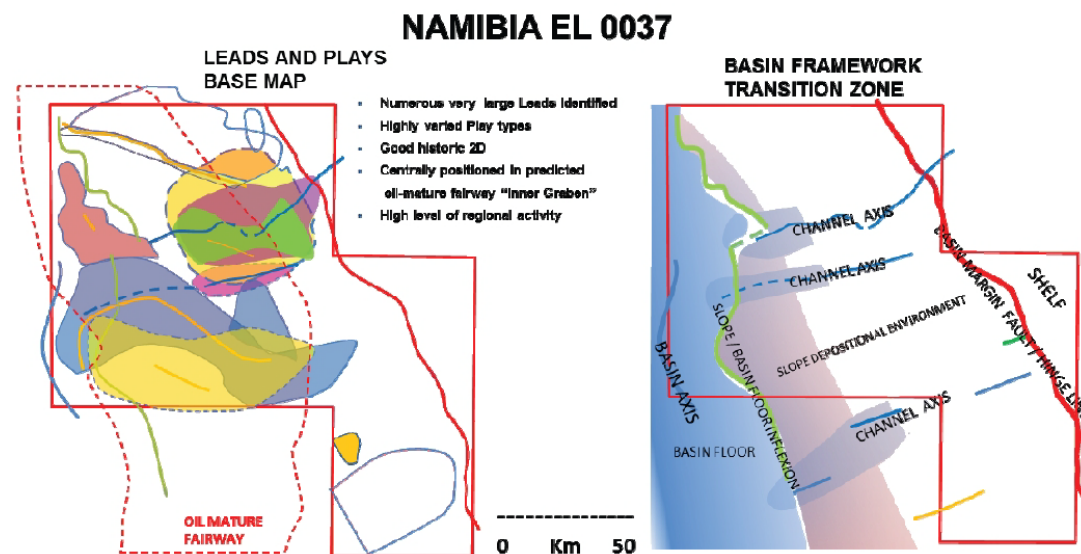
Pancontinental is an Australian-listed international oil and gas company that, as an early mover, has established a material acreage position offshore Kenya and Namibia. The company also holds non-core assets in Australia.

Exhibit 1 - Offshore Kenya Map

Source: PCL corporate presentation

Exhibit 2 - Offshore Namibia Map

Source: PCL corporate presentation

Exhibit 3 - EL 0037 Leads & Plays

Source: PCL corporate presentation

Kenya Prospect Inventory Advancing

In addition to the regional catalysts mentioned on the front page, Pancontinental published an updated activities report, including some further details with respect to prospect generation for its planned upcoming drilling.

On Block L8, technical analysis of the Mbawa well results are ongoing and two specific prospects for further potential drilling have been identified by operator Apache.

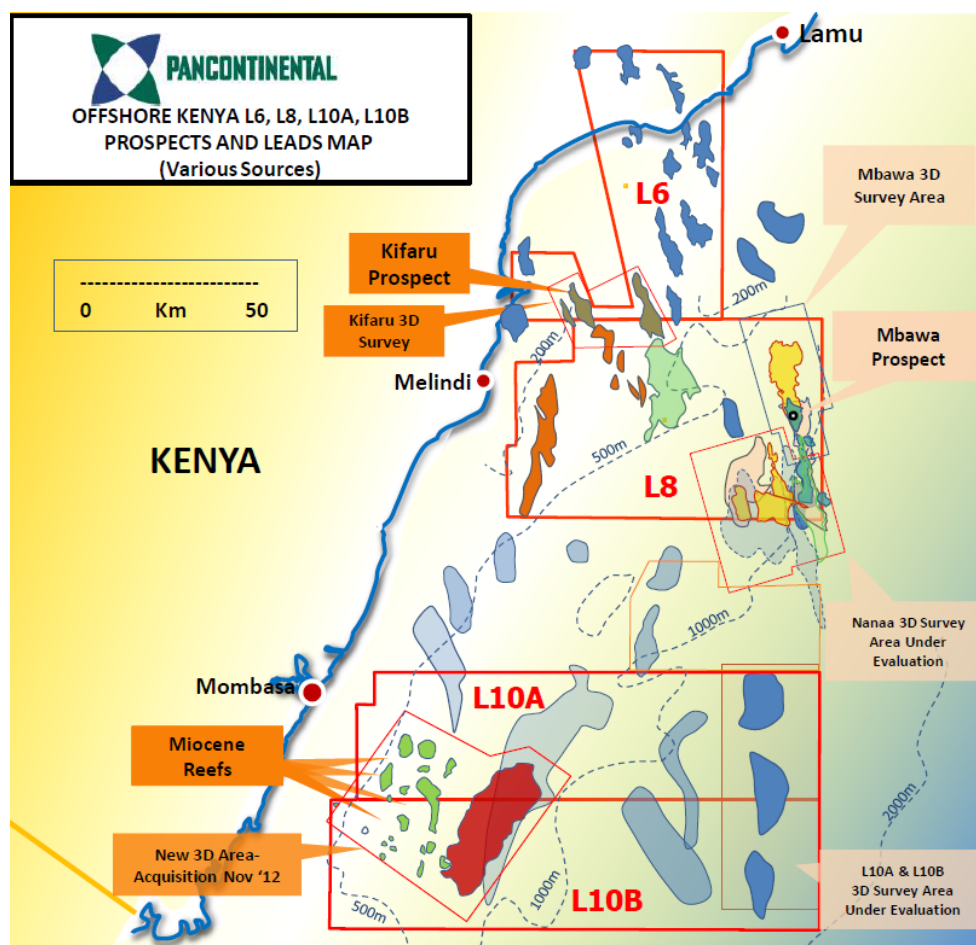
The Tai prospect is thought to lie in a potentially independent petroleum system to that of Mbawa, which could prove to be oil-prone. With 220 mmbbls of gross unrisked prospective resources, we believe this Middle Cretaceous prospect is clearly of potentially material scale.

The Nanaa prospect is another potential location being considered, following the evaluation of recently completed 3D seismic within this area south of Mbawa.

On Blocks L10A & B, operator BG Group recently completed new 3D seismic in the western portion of the block. The most significant leads include a cluster of over 10 Miocene reefs and a large Tertiary-Lower Jurassic anticline called Crombec.

Within the eastern sector, closest to the adjacent Anadarko well, an extensive system of potentially gas-charged Tertiary channels have also been mapped.

Exhibit 4 - Offshore Kenya Prospects



Source: PCL corporate presentation

On Block L6, technical work and 3D seismic interpretation have identified a deep central graben (Maridadi Trough) which could potentially be a regional oil and gas source. Prospects immediately adjacent to this zone are being high-graded, including Kifaru and Tembo.

Kifaru looks particularly interesting at this time with oil-mature Eocene source rocks thought to lie adjacent and below Miocene reef reservoir targets which have good predicted reservoir and seal characteristics.

Both operating partner FAR Ltd (60% interest) and Pancontinental (40% interest) are seeking to farm-down their high working interests ahead of a potential well later this year. Indeed, planning for drilling, and an Environmental Impact Assessment, is already progressing. We believe Anadarko's drilling activity in the region will significantly impact this proposed farm-down process.

Exhibit 5 - Block L6 Prospects

L6 - Prospect Inventory

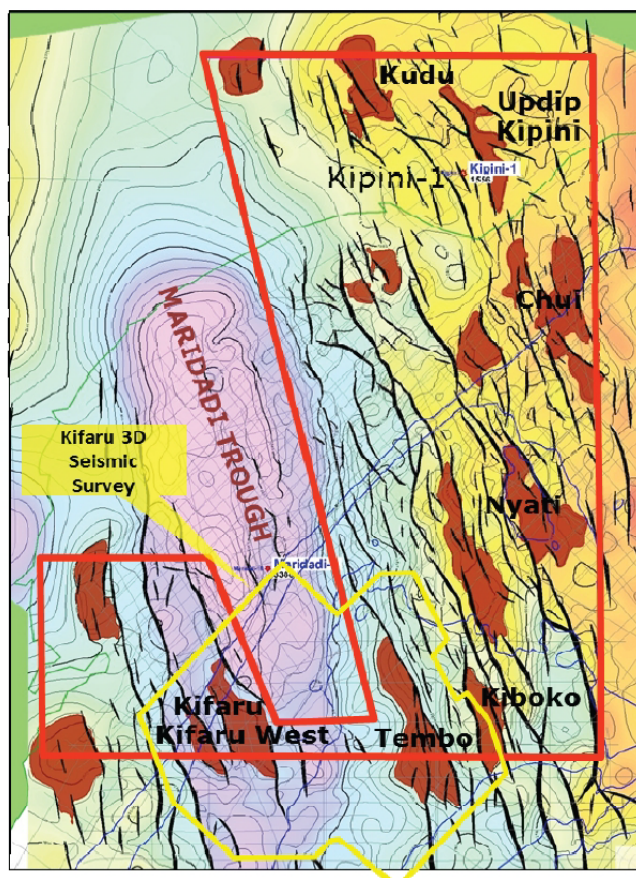
Three prospects on 3D

- Miocene Reefs
- Eocene Sandstones

Five other prospects on 2D - multiple targets

- Eocene Sandstones Targets
- Upper Cretaceous Sandstone Targets

Mapped on 3D	Play
Kifaru	Miocene Reef
Kifaru West	Miocene Reef
Tembo	Eocene (Kipini) Sand
Mapped on 2D	Play
Kudu	Eocene (Kipini) Sand
Updip Kipini	Eocene (Kipini) Sand
Kiboko	Eocene (Kipini) Sand
Chui cluster	Eocene (Kipini) Sand
Nyati	Eocene (Kipini) Sand
Totals	



Source: PCL corporate presentation

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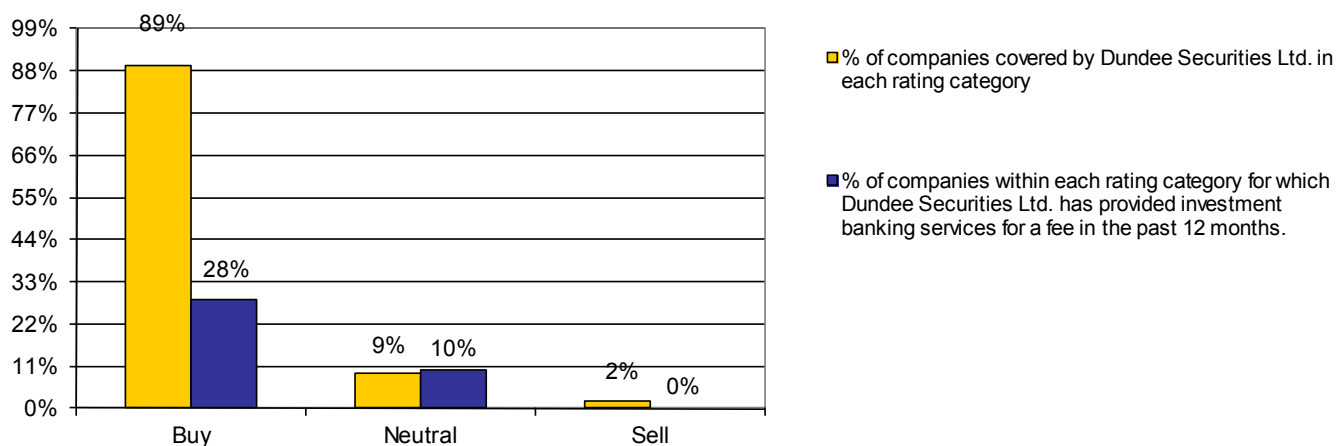
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