

6 January 2014

Pancontinental
(PCL AU, last price A\$0.063/sh, market cap \$65m)

SUBJECT: Pancontinental announced that BG has spudded the Sunbird-1 exploration well in the L10A block offshore Kenya using the drillship Deepsea Metro-1. BG holds an operated 50% interest in the block and the partners are PTTEP (31.25%) and Pancontinental (18.75%).

OUR VIEW: Offshore Kenya has met with mixed success in 2012/13, but 2014 will see a number of key wells that have the potential to change the mind of the market. Pancontinental will drill two of these with partner BG next year. The first, spudded today, is targeting the Sunbird prospect, a 73 sq km, shallow, oil-prone Miocene reef, where a 200mmbbl oil discovery could theoretically add 200% to Pancontinental's market cap. With \$30m cash and no debt, Pancontinental is comfortably funded for the first well. Furthermore, a farm out at the L6 block (also offshore Kenya) could permit drilling at the exciting Kifaru prospect (and allow recovery of approximately \$10m in back costs), while Tullow is due to make a drilling decision on the Namibia acreage around mid-year, following the receipt of new 3D seismic.

DETAILS:

- **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). Well result is expected around end February. 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 unrisks basis. Pancontinental has around 20 other buried reefs and reef-like features over its blocks in Kenya.
- **A second well offshore Kenya around mid-late 2014 on the L10A or L10B block.** BG expects over 1bnboe potential net unrisks in the two blocks L10A and L10B. BG has mapped a number of other prospects, including the Crombec prospect, for possible drilling after Sunbird-1. Pancontinental owns a 18.75% interest in L10A and a 15% interest in L10B.
- **Cash:** Pancontinental had A\$33m (or US\$31.5m) of cash end September 2013. 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 around \$10m 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.

