

PANCONTINENTAL OIL AND GAS NL

Multiple Catalysts – Time to Get Set

Pancontinental Oil and Gas NL (“Pancontinental”, “PCL”, “Company”) is poised to enter an extremely active 12 months with multiple catalysts likely, including:

- Rig contract likely to be announced, firming up timing for drilling of the huge Mbawa prospect offshore Kenya, L8 - Q1/Q2 2012
- Farmout and commence seismic offshore Kenya, L6 - H1 2012 (PCL 40%)
- Early results from seismic offshore Kenya, L10A/L10B – mid 2012 (PCL 15%)
- Drilling by others offshore Namibia – mid 2012
- Farmout and start seismic offshore Namibia, EL0037 (PCL 85%) - H2 2012
- Drilling at the billion barrel plus Mbawa prospect in L8 - Q3 2012 (PCL 15%)
- More detailed results from L10A / L10B - Q4 2012
- Drilling in L10A / L10B – possible H1 2013

Exact timing of the catalysts is difficult to predict and the timings above are Hartleys’ internal estimates. The key takeaway is that strong newsflow in the lead up to the drilling of Mbawa is likely to drive the share price up significantly. We also believe that downside from the current price is limited to some degree, even if Mbawa were to be unsuccessful, due to the continued high level of activity in Kenya at L6, L10A and L10B as well as offshore Namibia.

Mbawa – A Recap => Its BIG!

PCL has released P10 in place estimates for Mbawa of greater than 5.2 billion barrel of oil – in the Giant category. We are carrying 855 million barrels of recoverable potential, based on the P50 in place estimate of 2.1 billion barrels. In the event of success, we model net present value of US\$15 per barrel (the PSC terms at L8 are generous by African standards as they pre-date the recent spate of success offshore East Africa). This implies upside potential for Pancontinental of 220cps from Mbawa alone, not including any of the other prospects on the block or in neighbouring blocks where PCL also has high working interests. Generally, the market “corrects” the share price to reflect the view that exploration success for frontier areas is a 1 in 10 proposition. This implies that PCL’s share price should reach 22cps prior to the drilling at Mbawa. 3D seismic interpretation shows Mbawa is impressive pre-drill and the East African margin has seen 11 successes from 11 offshore wells in the last 18 months, using the same technology, so 1 in 10 is conservative in our view.

Full Steam Ahead at L10A / L10B

PCL has hinted at the potential identified on these two blocks, also located offshore Kenya, with 10 strong leads identified across 6 different play types. The diversity and size of the leads has been mentioned as a positive surprise. The speed at which the operator, BG, is moving also provides an indication of the perceived prospectivity. Strong newsflow related to the results from the recently completed 2D and 3D seismic surveys is expected in mid 2012 and is likely to be a further strong share price catalyst.

L6 / EL0037 – Deal Flow and Seismic Expected

Both L6, offshore Kenya, and EL0037, offshore Namibia, may see farm-out deals in the near term as well as seismic. Nearby drilling activity offshore this year may also see the permits high graded. The majors have recently moved in to these “hot” areas, leaving PCL as one of the few remaining juniors.

We rate PCL as a Speculative Buy with a price target of 23cps (prev 19cps).

31 Jan 2012

Share Price: \$0.093
6mth Price Target: \$0.23

Brief Business Description:

Frontier explorer with a knack for early entry into oil prone areas.

Hartleys Brief Investment Conclusion

Undervalued compared to international peers. Large exposure to drilling events over next 18 months.

Chairman & CEO:

Mr Henry David Kennedy (Chairman)
Mr Roy Barry Rushworth (CEO, Director)

Top Shareholders:

SUNDOWNER INTERNATIONAL LIMITED (15.4%)
HSBC CUSTODY NOMINEES (10.8%)
INDAGO RESOURCES LIMITED (6.8%)

Company Address:

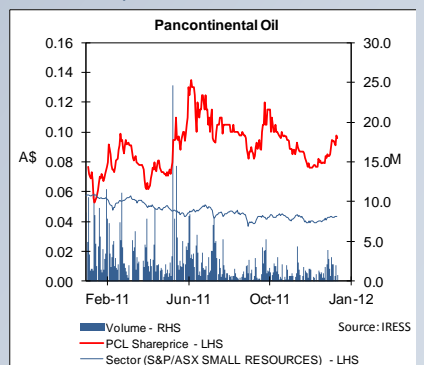
Ground Floor, 288 Stirling St
Perth, WA, 6000

Valuation: \$0.37
Issued Capital: 860.8m
- fully diluted 874.5m
Market Cap: \$80.1m
- fully diluted \$81.3m
Cash Equiv (30 June '11): \$5.7m
Debt (30 June '11): \$0.0m

Valuation Summary

Asset	Value (\$m)	Value (\$ps)	Unrisked
			Value (\$ps)
L8 - Mbawa	192.42	0.220	2.20
EL0037	30.00	0.034	3.43
10A	15.00	0.017	0.86
10B	15.00	0.017	0.86
Malta	0.00	0.000	1.04
L6	70.28	0.080	1.61
Australia	3.60	0.004	1.00
Cash	5.70	0.007	0.007
Debt	1.00	0.000	0.000
Corp Admin	-11.33	-0.013	-0.013
Options	1.00	0.001	0.001
Total	321.67	0.368	10.98

Source: Hartleys Research



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Pancontinental Oil and Gas. See disclosure on back page for details. The analyst has a beneficial interest in the shares of Pancontinental Oil and Gas Ltd.

HARTLEYS RESEARCH COVERAGE LIST

Hartleys Gold Research Coverage						Hartleys Research Recommendation					
Name	Ticker	Last Price*	M. CAP (\$m)	Status	Hartleys Research Recommendation	Name	Ticker	Last Price*	M. CAP (\$m)	Status	Hartleys Research Recommendation
Resources						Oil & Gas					
Gold / Precious Metals						Conventional Oil & Gas					
1. Evolution Mining Limited	EVN	1.58	1,108	Producer	Buy	1. Woodside Petroleum Ltd	WPL	34.11	27,057	Major	Buy
2. Silver Lake Resources Limited	SLR	3.48	767	Producer	Buy	2. Nexus Energy Ltd	NXS	0.24	230	Developer / Explorer	No Rating
3. Intrepid Mines Limited	IAU	1.19	622	Explorer	Speculative Buy	3. Tap Oil Ltd	TAP	0.65	155	Producer / Explorer	Buy
4. Integra Mining Limited	IGR	0.595	501	Producer	Buy	4. Cooper Energy Ltd	COE	0.36	105	Producer / Explorer	Buy
5. Beadell Resources Limited	BDR	0.700	461	Developer	Buy	5. Otto Energy Ltd	OEL	0.09	100	Explorer / Producer	Buy
6. Gold One International Limited	GDO	0.500	404	Producer	No Rating	6. Carnarvon Petroleum Ltd	CVN	0.13	89	Producer / Explorer	Accumulate
7. Northern Star Resources Ltd	NST	0.925	324	Producer	Buy	7. Amadeus Energy Ltd	AMU	0.22	66	Producer / Explorer	Neutral
8. Focus Minerals Ltd	FML	0.053	229	Producer	Buy	8. FAR Ltd	FAR	0.03	59	Explorer	Speculative Buy
9. PMI Gold Corporation Limited	PVM	1.01	224	Developer	Buy	9. WHL Energy Ltd	WHN	0.05	56	Explorer	Speculative Buy
10. ABM Resources NL	ABU	0.062	201	Explorer	Speculative Buy	10. Pancontinental Oil and Gas NL	PCL	0.08	56	Explorer	Speculative Buy
11. Tanami Gold NL	TAM	0.675	176	Producer	Accumulate	11. Hawklely Oil and Gas Ltd	HOG	0.18	34	Producer / Explorer	Buy
12. Papillon Resources Limited	PIR	0.670	144	Explorer	Speculative Buy	12. Sun Resources NL	SUR	0.02	23	Explorer / Producer	Speculative Buy
13. YTC Resources Limited	YTC	0.405	101	Developer	Buy	Non Conventional Oil & Gas					
14. Cerro Resources NL	CJO	0.115	86	Developer / Explorer	Accumulate	13. Aurora Oil and Gas Ltd	AUT	3.28	1,349	Producer / Developer	Reduce
15. Emmerson Resources Limited	ERM	0.210	48	Explorer	Speculative Buy	14. Samson Oil & Gas Ltd	SSN	0.11	183	Developer / Producer	Buy
16. Mutiny Gold Limited	MYG	0.085	36	Developer	Speculative Buy	15. Oilex Ltd	OEX	0.25	62	Explorer / Producer	Speculative Buy
17. Cortona Resources Limited	CRC	0.135	30	Developer	Accumulate	16. European Gas Ltd	EPG	0.27	53	Producer / Explorer	Speculative Buy
18. Canyon Resources Limited	CAY	0.480	26	Explorer	Speculative Buy	17. Transerv Energy Ltd	TSV	0.01	30	Developer	Speculative Buy
19. Augur Resources Ltd	AUK	0.125	22	Explorer	Speculative Buy	18. Emerald Oil and Gas NL	EMR	0.03	26	Producer / Appraisal	Speculative Buy
20. Southern Gold Limited	SAU	0.040	10	Explorer	Speculative Buy	19. Austin Exploration Ltd	AKK	0.03	17	Producer / Appraisal	Speculative Buy
21. Geopacific Resources NL	GPR	0.200	7	Explorer	Speculative Buy	Sub-Total 29,750					
Diversified Base / Precious Metals						Industrials					
22. Independence Group NL	IGO	3.75	759	Gold & Base Prod./Dev.	Buy	Resource Services - Capital Intensive					
23. Aviva Corporation Limited	AVA	0.120	20	Gold & Base Explorer	Speculative Buy	1. Ausdrill Limited	ASL	3.32	1,032	Contract Drilling	Buy
24. Ausquest Limited	AQD	0.065	15	Diversified explor	Speculative Buy	1. NRW Holdings Ltd	NWH	2.85	795	Contract mining	Buy
25. Silver Swan Group Ltd	SWN	0.060	8	Base Metal Explorer	Speculative Buy	2. Fleetwood Corporation	FWD	12.01	715	Accommodation	Neutral
Iron Ore						3. Mermaid Marine Ltd	MRM	2.95	668	Oil & Gas Services	Accumulate
26. Atlas Iron Limited	AGO	3.26	2,898	Producer	Buy	3. Macmahon Holdings Limited	MAH	0.62	480	Contract mining	Accumulate
27. Centaurus Metals Ltd	CTM	0.480	64	Explorer	Speculative Buy	3. Imdex Ltd	IMD	2.03	431	Drilling Supplies	Buy
Uranium						4. MACA Ltd	MLD	1.85	286	Contract mining	Buy
28. Peninsula Energy Ltd	PEN	0.043	92	Developer	Buy	4. Matrix Composites &	MCE	3.06	236	Oil & Gas Services	Neutral
29. Impact Minerals Limited	IPT	0.067	8	Explorer	Speculative Buy	5. Pacific Energy Ltd	PEA	0.38	136	Remote Power	Buy
Other metals						5. Swick Mining Services Ltd	SWK	0.30	71	Contract Drilling	Buy
30. Kasbah Resources Limited	KAS	0.210	76	Tin Developer	Buy	Resource Services - Labour Intensive					
31. Hazelwood Resources Ltd	HAZ	0.115	30	Tungsten Developer	Speculative Buy	6. Monadelphous Group Limited	MND	21.77	1,988	Construction	Buy
32. Shaw River Manganese Limited	SRR	0.066	17	Manganese: Developer	Speculative Buy	6. Decmil Group Limited	DCG	2.06	345	Construction	Buy
Sub-Total 9,511						7. Lycopodium Limited	LYL	6.04	233	Engineer. & Constr.	Accumulate
						7. RCR Tomlinson Ltd	RCR	1.59	224	Engineer. & Constr.	Buy
						8. LogiCams Limited	LCM	0.75	51	Engineer. & Constr.	Speculative Buy
						Other Industrial Companies					
						9. iNet Limited	IIN	2.97	442	Telecommunications	Buy
						9. Austal Limited	ASB	2.04	396	Civil and Military	Buy
						10. Cash Converters Internat.	CCV	0.52	208	Unsecured Finance	Buy
						10. Amcom Telecommunications	AMM	0.85	165	Telecommunications	Accumulate
						Sub-Total 8,904					
						70. GRAND TOTAL 48,165					

Source: IRESS, Hartleys Research. * 19 Jan 2012

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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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Hartleys has completed a capital raising in the past 12 months for Pancontinental Oil & Gas NL ("Pancontinental"), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Pancontinental Oil & Gas NL, for which it has earned fees and continues to earn fees.

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