

**PANCONTINENTAL OIL & GAS NL**

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Email: info@pancon.com.au
Web: www.pancon.com.au***QUARTERLY ACTIVITIES REPORT***
September 2012**HIGHLIGHTS**

- **Mbawa 1, first ever gas discovery offshore Kenya**
- **Kenya L6 Kifaru 3D seismic survey completed July 2012**
- **Pancontinental acquires additional 10% interest in Namibia EL 0037**
- **Kenya L10A & L10B – Processing and Interpretation continues on 3D and 2D seismic data. New 3D Survey planned for November 2012**

INTERNATIONAL PROJECTS**KENYA OFFSHORE BLOCK L8*****Pancontinental Oil & Gas NL 15%*****Mbawa 1 Discovery**

L8 covers 5,114.9 sq km offshore Kenya in water depths from 100m to 1,300m.

The Mbawa 1 exploration well, drilled during August and September, is the first natural gas discovery and the first ever hydrocarbon (oil or gas) discovery offshore Kenya. Pancontinental holds 15% interest in the project.

Gas recovered from the discovery zone is interpreted to be thermogenic and derived from a possible Type II mixed gas / oil source rock, while traces of dull fluorescence remain to be analysed and interpreted.

Mbawa 1 was completed ahead of schedule and has been left in a condition allowing re-entry at a later date.

The extensive collection of data and samples from the well is undergoing detailed analysis and this will continue into 2013. The volumetric parameters and commercial aspects of the discovery have yet to be definitively ascertained and the forward work programme is being considered in the light of the Mbawa results.

The Mbawa Prospect is one of various prospects in the L8 licence area and the first to be drilled out of numerous prospects and leads in Pancontinental's four licence areas offshore Kenya.

Mbawa 1 Well - Operations

The Mbawa 1 exploration well was spudded by the drillship Deepsea Metro 1 on 10 August 2012 and drilled to a TD of 3,150m MD. This is the first well on the large Mbawa Prospect in area L8 offshore Kenya (Apache Corporation 50%, Origin Energy 20%, Pancontinental 15%, Tullow Oil 15%).

Operator Apache Corporation completed well operations in 47 days, being 13 days ahead of schedule.

Mbawa 1 Interim Results & Preliminary Interpretation

The Mbawa discovery is on a localised faulted four-way dip closure on the southern extremity of the overall north-south trending sub-regional Mbawa Prospect. The potential of the remainder of the four-way dip closed 160 sq km (40,000 acre) structure remains to be assessed.

At the Upper Cretaceous primary target level, 51.8 net metres (~170 feet) of natural gas pay were encountered in three zones of channel and turbidite sandstones. Porosities were very favourable at an average of approximately 24%.

The Mbawa 1 discovery well has proven a working hydrocarbon system offshore Kenya; this has opened a new hydrocarbon region offshore East Africa. Mbawa 1 has reversed the earlier perception created by the results of the Pombo 1 well drilled by Woodside Energy in 2007 that there was no source rock offshore Kenya.

Size and Potential Commerciality of the Mbawa 1 Gas Discovery

Volumetric estimates of the Mbawa discovery remain within a considerable range and are subject to ongoing evaluation.

L8 - Forward Exploration Programme

The large amount of technical data gathered during Mbawa drilling is now being assessed and will be integrated into existing exploration models.

With the Mbawa 1 gas discovery and the proving of a working hydrocarbon system, Pancontinental believes that the next 12-18 months will be a defining period for oil and gas exploration offshore Kenya.

Oil remains Pancontinental's prime focus offshore Kenya and this has not been diminished by discovering gas in Mbawa 1. The interpretation of the Mbawa gas being derived from a Type II (mixed gas /oil) source rock adds further encouragement to Pancontinental's long-held exploration concepts.

Pancontinental is well funded for up to 4 offshore Kenya wells directly (1 well depends on the completion of farmout in Block L6) and up to 4 wells offshore Kenya indirectly (wells by other companies) over the coming 12-18 months.

Pancontinental announced the completion of the 1,400 sq km Nanaa 3D seismic survey in L8 in March 2012. The survey is adjacent to the earlier Mbawa 3D survey.

PANCONTINENTAL

OFFSHORE KENYA L6, L8, L10A, L10B PROSPECTS AND LEADS MAP (Various Sources)

0 Km 50

KENYA

Lamu

Melindi

Mombasa

Kifaru Prospect

Kifaru 3D Survey

Mbawa 3D Survey Area

Mbawa Discovery

Nanaa 3D Survey Area Under Evaluation

Miocene Reefs

New 3D Area-Acquisition Nov 2012

L6

L8

L10A

L10B

L10A & L10B 3D Survey Area Under Evaluation

200m

500m

1000m

2000m

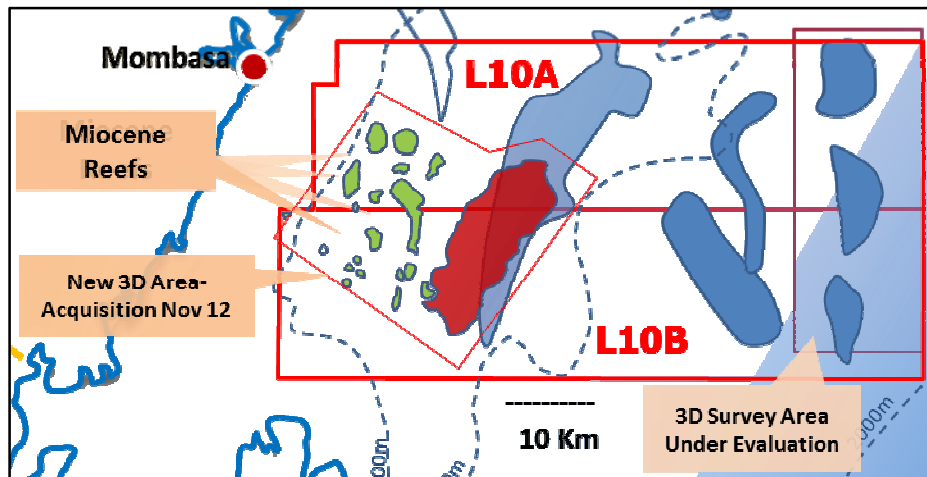
Pancontinental Oil & Gas NL – 15%

L10A and L10B have respective areas of 4,962.03 sq km and 5,585.35 sq km in water depths of 200 to 1,900m.

New 3D Seismic Survey Planned

Following the 2D and 3D seismic surveys earlier in 2012 the L10A and L10B joint venture has decided to carry out an additional 3D seismic survey over an area of 2,180 sq km in the western sector of the licence areas. The new survey is planned for Q4 2012 and results are expected in 2013.

The new 3D survey will cover a cluster of large Miocene reefs and the very large Crombec Lead. These leads are possible drilling targets and the joint venture has scheduled the new survey as soon as possible, within equipment and planning constraints. The survey is planned over the approximate area as shown-



Current Mapping Work

Processing and interpretation of the 2D and 3D data acquired late 2011 / early 2012 is ongoing and preliminary results are very encouraging. The 3D survey covered leads in the eastern part of the areas, while the 2D survey was completed in the western part of the areas.

In the western sector of the L10A and L10B areas, the joint venture operator BG Group has mapped a number of very large leads for further work and possible drilling. These will be covered by the new 3D survey.

The largest leads to be targeted by the new 3D survey in the western sector are-

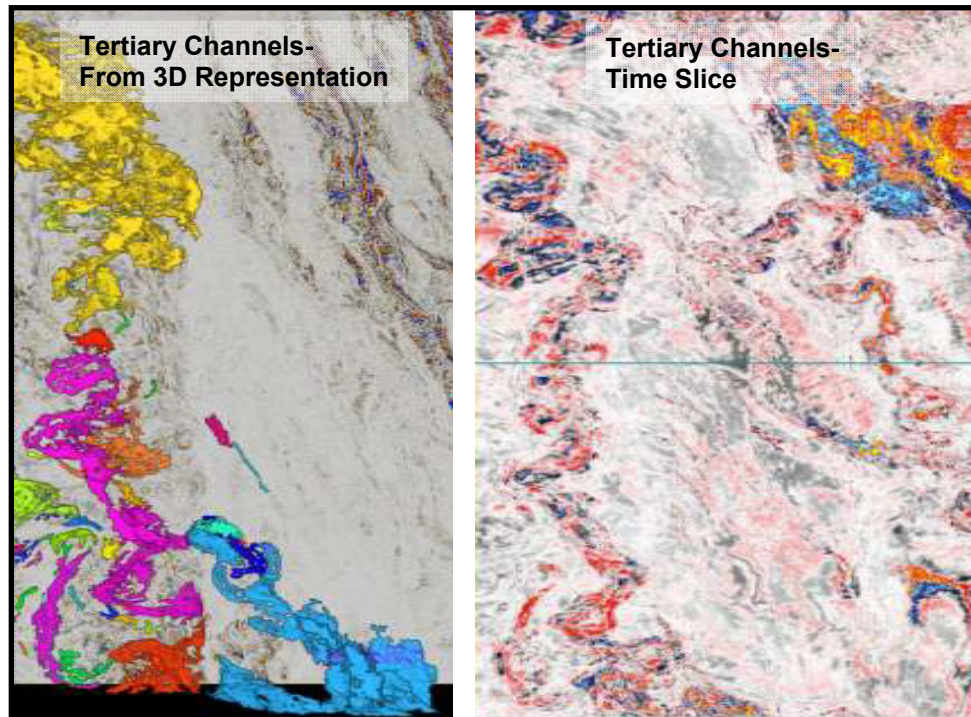
(i) A cluster of more than 10 Miocene Reefs that appears to be mainly restricted to the L10 areas. The largest are the Sunbird, Turaco and Babbler Leads, with areas between 12 sq km and 50 sq km and vertical relief up to 1,500m. The largest have individual potential to easily contain more than 5Tcf of gas or substantial oil volumes.

Miocene reefs are known globally to have very high per-well production potential. The L10 reefs are in water depths of approximately 500m and within 50Km of the major Kenyan port of Mombasa. They will be explored for both their potential to supply low cost gas to a possible LNG development, as well as for their oil potential.

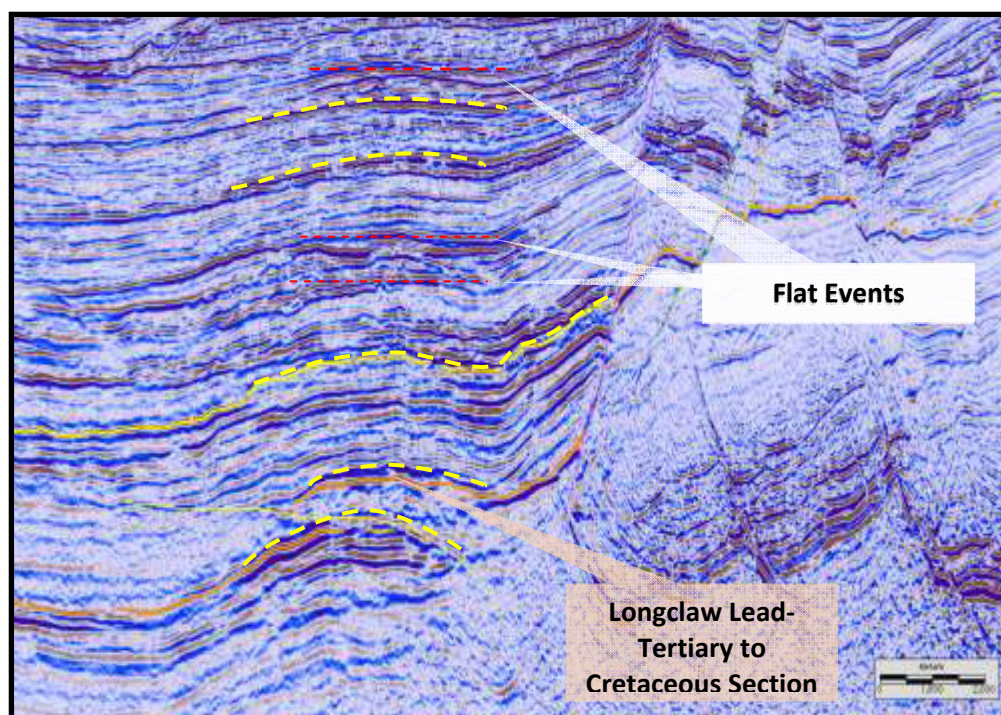
(ii) The Crombec Prospect is a very large anticline covering 500 sq km in the western sector of the areas. Crombec has four-way dip closure from the Tertiary to the Lower Jurassic. It has sands onlapping the crest, indicating a likely growth structure. A possible geological analogue is the Songo-Songo field offshore Tanzania.

In the eastern sector of the areas, mapping continues on a number of Prospects and Play Types in the 3D data set acquired late 2011/ early 2012. Two examples of the diverse play types are-

(i) An extensive system of Tertiary channels. The Tertiary section holds most of the gas discovered to date offshore Mozambique and Tanzania. The channels in L10A & L10B may be gas charged, possibly representing a very large resource.



(ii) Structural Leads in the Tertiary to Cretaceous section. The Longclaw Lead is an example of a dip reversal associated with a fault. It shows stacked potential within Tertiary stacked channels and Cretaceous thrust and sub-thrust plays. Indications of hydrocarbons such as amplitude anomalies (gas flags) and “Flat Spots”, on highs give positive indications of charge.



KENYA ONSHORE / OFFSHORE BLOCK L6

Pancontinental Oil & Gas NL – 40%

Kifaru 3D Seismic Survey Completion

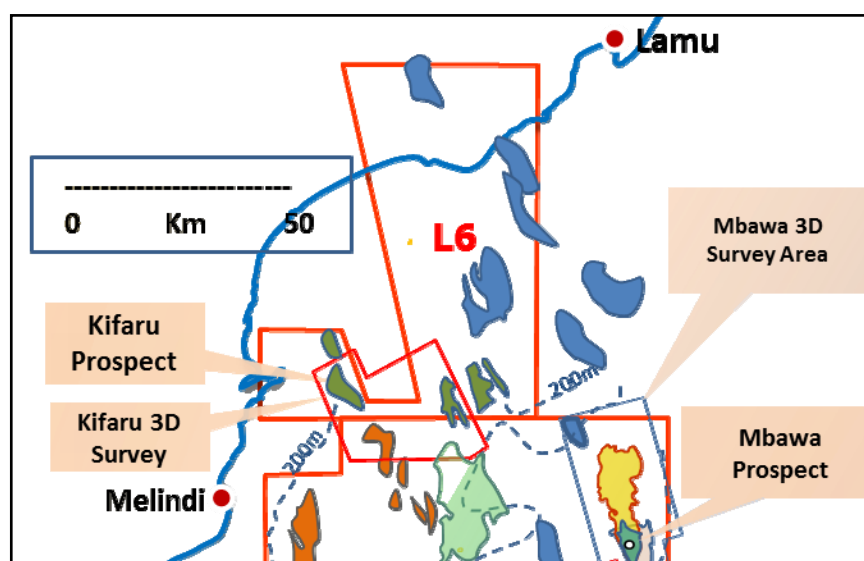
The Kifaru 3D seismic survey of 778 sq km was completed in July over the Kifaru and Tembo Prospects in the southern offshore portion of the L6 area. The larger of the Prospects, Kifaru, is in water depths of 80m to 100m in the southwest of the L6 area.

Pancontinental expects that the 3D survey will lead to the identification of one or more locations for drilling in 2013.

The L6 licence covers approximately 3,100 sq km, with about one quarter onshore and the rest offshore to 400 meters water depth. L6 is areally and geologically continuous to L8.

Following encouraging studies, the joint venture is exploring the offshore portion of the area. A deep central graben is considered to be oil and gas “source kitchen” and prospects have been identified immediately adjacent to this area.

Area L6 off the Kenyan coast lies in the Lamu Basin and within the Tana River delta, north of recent world-scale natural gas discoveries off the coasts of Mozambique and Tanzania.



The L6 joint venture is operated by FAR Limited (ASX : FAR), with a 60% interest.

The L6 joint venture group intends to seek a farminee for drilling in 2013.

NAMIBIA OFFSHORE EL 0037

Pancontinental Oil & Gas NL – 95%, Operator

Acquisition of Interest from Paragon

Pancontinental announced on 18 July that it had acquired a further 10% interest in EL 0037 from Paragon Holdings (Pty) Ltd (“Paragon”) in exchange for US\$ 4 million,

of which US\$ 2 million was paid “up front” and a further \$ 2 million to be paid upon farmout or after 6 months, whichever is the earlier. Ministerial approval of the transaction has been granted.

Pancontinental’s interest is now 95% and Paragon holds 5%. Paragon’s 5% interest will be “free carried” until the commencement of the development of any discovery.

Petroleum Exploration Licence No. 0037 (“EL 0037”) covers approximately 17,295 sq km in the Walvis Basin offshore northern Namibia.

Prospectivity offshore Namibia

At least six wells are planned by other companies offshore Namibia in 2012 / 2013. New techniques such as 3D seismic are considerably enhancing exploration prior to drilling.

Offshore Namibia is attracting significant international interest as a prime emerging prospective oil and gas province in southwest Africa with the potential to hold very large oil and gas reserves, and is significantly under-explored. The Kudu Gas Field offshore Namibia is under development by Tullow Oil plc, and other companies are actively exploring the margin for oil.

Offshore Namibia is the plate tectonic conjugate of offshore Brazil, where world-scale oil and gas discoveries have been made and it lies on the West African continental margin adjacent to Angola, where there have also been major oil discoveries.

Pancontinental believes that its Namibian acreage is one of the few areas covering an oil generating “sweet spot” where oil prone source rocks are sufficiently buried to generate oil; similar to its four projects offshore Kenya.

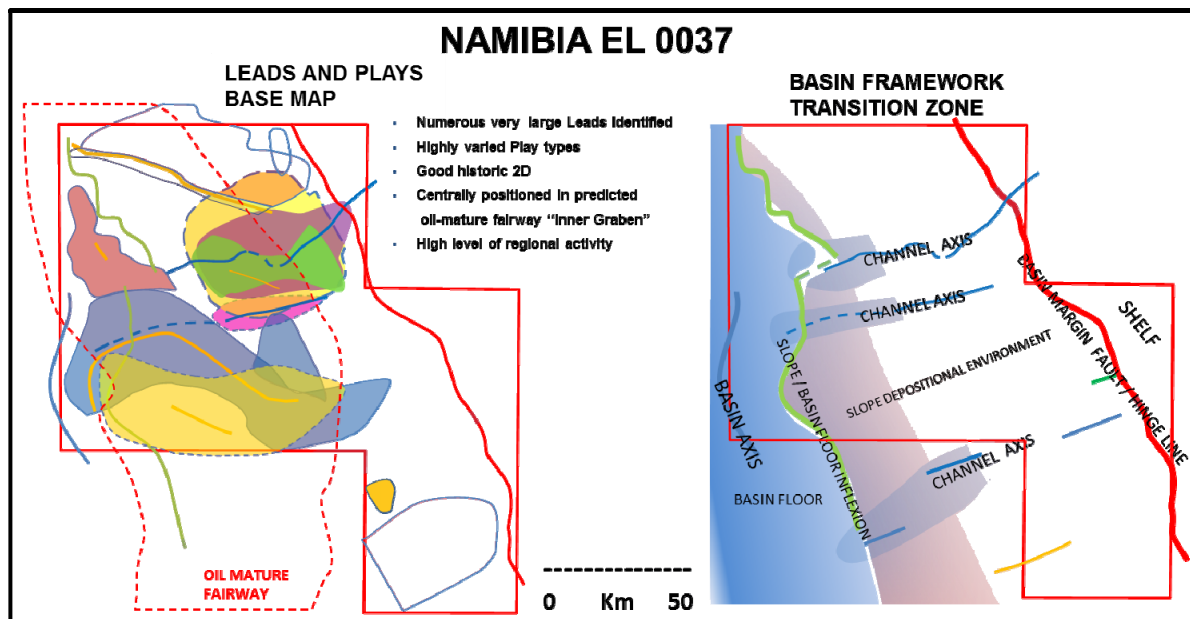
Source rock “maturity” is the key component of oil exploration offshore Namibia EL 0037 covers a deep trough area where the oil source rocks should be sufficiently deep and mature to generate oil.

Pancontinental is exploring ponded basin floor turbidites, slope fans and channels seen on existing 2D seismic. These targets are associated with the restricted graben trough that is interpreted to hold the rich and mature oil source rocks seen in regional wells.

EL 0037 Mapping

EL 0037 covers an extensive part of an “Inner Graben”, a geological trough that Pancontinental believes to be one of the limited oil-generating “fairways” offshore Northern Namibia.

Pancontinental has identified and mapped a number of ponded turbidite, slope turbidite, basin floor turbidite fans and channels forming major very large “leads” closely associated with, and within, the Inner Graben in EL 0037.



A number of the leads exceed several hundred square kilometers in area based on current mapping, and detailed mapping will be undertaken to define the full extent of the structural and stratigraphic closures and potential oil-bearing traps.

Farmout and Drilling Activity Offshore Namibia

Several significant farmins have recently been made offshore Namibia by companies including Repsol SA and BP.

A number of the joint ventures offshore Namibia are now entering drilling phases. At least six wells are planned in 2012 / 2013 by Chariot, HRT and Petrobras in joint venture groups that include BP and Repsol. At least two wells are anticipated in the vicinity of EL 0037. Two wells already drilled by Chariot Oil and Gas Limited were unsuccessful.

AUSTRALIAN PROJECTS

EP 104 / R1 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL – 10%

Petroleum Retention Lease R1 was renewed by the Minister of Mines and Petroleum of Western Australia for a period of five years from 8 November 2010.

The joint venture will now undertake an examination of the prospectivity of the licence areas and plan a new forward exploration programme. The Company is examining the future potential and value of this project.

L15 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL – 12%

Pancontinental and its co-venturers have been granted Petroleum Production Licence L15 over the West Kora-1 oil discovery well in the Canning Basin of Western Australia. The licence is for 21 years commencing 1 April 2010.

West Kora-1 was drilled in 1984 and produced some 20,000 Barrels of oil during an extended production test, commencing at a rate of 350 BOPD.

The L15 Joint Venture aims to upgrade the existing production facility and restore oil production from West Kora -1.

With improvements in technology and significantly higher oil prices, revived production from West Kora-1 could be feasible now that the Production Licence has been secured.

The Company is examining the future potential and value of this project.

EP 424 OFFSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL – 38.462%

EP 110 is operated in conjunction with EP- 424. The parties in EP-110 have identical equities to those in permit EP-424.

Commercial negotiations to gain access to the entire Baniyas prospect have reached a point where the Operator is of the view that there is little likelihood that the adjoining acreage can be secured.

Following a technical review of the Baniyas potential and due to the absence of success in extending Joint Venture access over all of the Baniyas Prospect, it was decided to consider selling or otherwise disposing of the licences.

EP 110 ONSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL - 38.462%

This permit is operated in conjunction with EP- 424. The parties in EP-110 have identical equities to those in permit EP-424.

During the quarter the Joint Venture considered a further review aimed at outlining possible onshore leads and prospects in EP 110.

NEW VENTURES

Pancontinental continued to examine a number of new exploration and acquisition opportunities in Africa.

CORPORATE

Placement of Share Purchase Plan Shortfall

On 31 July 2012, Pancontinental announced it had placed the shortfall shares (SPP Shortfall) resulting from the share purchase plan (SPP) announced 19 April 2012.

The SPP, which was capped at \$5 million to existing shareholders closed on 14 May 2012. The placement of the SPP Shortfall resulted in the issue of 25,300,002 shares at \$0.175 each and raised \$4.43 million in the September Quarter.

Inclusion in the S&P ASX 300 Index

During the September Quarter, Pancontinental was included in the S&P ASX 300 Index.

Cash Position

As at 30 September 2012, Pancontinental's cash balance was approximately \$39 million.

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The summary report on the oil and gas projects is based on information compiled by Mr R B Rushworth, BSc, MAAPG, MPESGB, Chief Executive Officer of Pancontinental Oil & Gas NL. Mr Rushworth has the relevant degree in geology and has been practising petroleum geology for more than 30 years. Mr Rushworth is a Director of Pancontinental Oil & Gas NL and has consented in writing to the inclusion of the information stated in the form and context in which it appears.