



## PANCONTINENTAL OIL & GAS NL

ACN 003 029 543 ASX : PCL

Ground Floor  
288 Stirling Street, Perth  
Western Australia 6000

P O Box 8260  
Perth Business Centre  
Western Australia 6849

Tel: (61 8) 9227 3220  
Fax: (61 8) 9227 3211  
Email: [info@pancon.com.au](mailto:info@pancon.com.au)  
Web: [www.pancon.com.au](http://www.pancon.com.au)

# **QUARTERLY ACTIVITIES REPORT** **December 2011**

## **HIGHLIGHTS**

- **Kenya L10A & L10B - New 3D and 2D seismic commenced. Prospectivity review identifies ten strong "leads"**
- **Kenya L8 - Tullow farm-in completed**
- **Kenya L8- Mbawa drilling estimated mid to Q3 2012**
- **\$15 million capital raising to fund high impact African exploration – several of the world's largest and most respected institutional investors enter as shareholders**

## **INTERNATIONAL PROJECTS**

### **KENYA OFFSHORE BLOCK L8**

***Pancontinental Oil & Gas NL 15%***

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

Block L8 holds several large exploration objectives, the largest being the Mbawa Prospect, a large and complexly faulted anticline mapped on 3D seismic data with potential for both oil and gas at inferred Cretaceous and Jurassic reservoir levels.

Pancontinental interprets an extensive deep oil and gas generating "kitchen" near the Mbawa Prospect, extending to the north into area L6 and south into L10A and L10B. Sea surface "slicks" interpreted from satellite data support the concept of oil generation, expulsion and migration from the kitchen area and Mbawa itself.

#### **Tullow Farmin Completed**

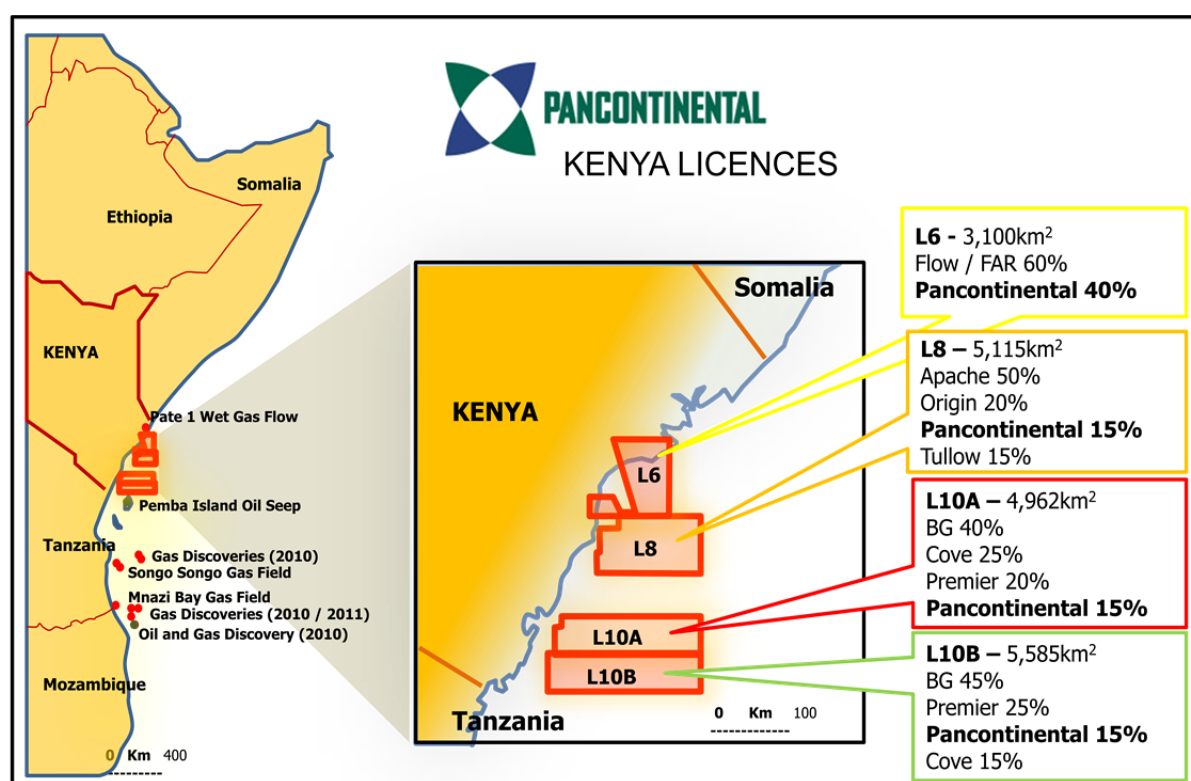
On 7 October, Pancontinental announced the completion of a farmout of part of its interest in Kenya licence L8 to Tullow Kenya B.V. a wholly owned subsidiary of Tullow Oil plc ("Tullow") by the signed consent of the Minister of Energy of Kenya and by the satisfaction of all other conditions precedent.

Tullow's interest has been taken from Afrex Ltd, a wholly owned subsidiary of Pancontinental.

The Kenya L8 consortium consists of-	
Apache Corporation (Operator)	50%
Origin Energy Limited	20%
<b>Pancontinental Oil &amp; Gas NL</b>	<b>15%</b>
Tullow Kenya B.V.	15%

Under the farmout Tullow earns a 10% interest in the licence over offshore Kenya Block L8 by reimbursing Pancontinental US\$ 1 million for past expenditure in respect of Pancontinental's interest and spending a further US\$9 million to "carry" Pancontinental though the next part of the L8 work programme including drilling the Mbawa Prospect. Tullow will also pay for its own 10% of expenditure with respect to the interest acquired from Afrex.

Pancontinental will retain a 15% interest in L8 and after the first earning phase Tullow will have an option to earn a further 5% by providing further funding on its own and on Pancontinental's behalf.



### Mbawa Drilling Schedule

On 28 November 2011, Pancontinental announced that preparations for drilling the Mbawa Prospect are proceeding as planned. Pancontinental's best estimate for the commencement of drilling is mid-year or Q3 2012.

Mbawa coincides with interpreted natural oil slicks derived from sea floor "pockmarks" associated with faulting on the flank of the structure. As well as Mbawa, other prospects in L8 also have high volumetric potential and are also associated with interpreted slicks.

Water depth over Mbawa is about 800 metres, easily within the range of modern drilling and production technology.

After Mbawa, the next largest prospect is Nanaa Central with approximately 40% of Mbawa's volumetric potential. Nanaa Central would provide an additional commercial opportunity after any Mbawa discovery.

While there can be no direct evidence that the Mbawa Prospect contains any oil or gas until drilling has taken place, based on volumetric estimates indicating that, if filled to spill point and subject to risks that include trap integrity and the fact that the offshore Lamu Basin petroleum system is unproven, Pancontinental estimates Mbawa has in-place and unrisks potential to contain at the **Tertiary- Cretaceous** level –

- **up to 4.9 Billion Barrels of oil (P10) plus**
- **a gas cap of 284 Billion Cubic Feet (P10)**

Further, Pancontinental estimates that Mbawa has in-place and unrisks potential to contain at the deeper **Top Jurassic** level –

- **up to 323 Million Barrels oil (P10) or**
- **525 Billion Cubic Feet gas (P10)**

but these are subject to risks that include the fact that there is limited data for reservoir parameters on the East African margin, there is no control on interpretation of Jurassic carbonates and the lack of a commercial discovery of hydrocarbons in Jurassic carbonates on the East African margin.

The geological parameters used in estimating the volumetric potential have been drawn from regional data and modelling of worldwide geological systems and may not necessarily reflect the parameters in place in the Mbawa Prospect. The P10 potential volumes quoted are only possible if the Prospect is filled to spill point and the interpretation and estimated parameters prove to be valid. There is no direct evidence that the Prospect contains any oil or gas and it is possible that the Prospect may be only partially filled or contains no hydrocarbons. Recoverable reserves are lower than in-place volumes and are subject to a number of factors that are not estimated in the quoted volumetric potentials. Only drilling and further assessment can determine the actual volumes (if any) of oil or gas in place or recoverable.

## **KENYA ONSHORE / OFFSHORE BLOCK L6**

***Pancontinental Oil & Gas NL – 40%***

The L6 licence area covers approximately 3,100 sq km. Approximately one quarter of the area lies onshore and the rest extends offshore to 400 metres water depth. L6 is adjacent and geologically continuous to L8.

Following encouraging hydrocarbon generation and migration studies, the joint venture has shifted its attention to the offshore portion of the licence area. A deep central graben in this area is considered to be an oil and gas “source kitchen” and potential hydrocarbon trapping prospects have been identified immediately adjacent to this area.

The most prospective offshore areas contain a number of known prospects and leads adjacent to the interpreted “source-kitchen”. The largest of these is the Kifaru Prospect in water depths of 80m to 100m in the southwest of the licence area.

A 3D seismic survey area has been laid out over Kifaru and another prospect.

During the quarter the joint venture continued planning for the 3D survey and continued to seek a farminee for 3D seismic acquisition over the Kifaru Prospect and other prospects in 2012.

### **KENYA OFFSHORE BLOCKS L10A & L10B**

***Pancontinental Oil & Gas NL – 15%***

L10A and L10B have respective areas of 4,962.03 sq km and 5,585.35 sq km and water depths of 200 to 1,900m, well within the reach of modern engineering technology.

On 18 May Pancontinental announced that, together with three co-venturers and led by operator BG Group plc, it had signed new Production Sharing Contracts (“PSCs”) over offshore exploration Blocks L10A and L10B with the Government of Kenya, with an Effective Date for the licences of 17 August 2011. Pancontinental holds a 15% interest in each new PSC.

### **Initial Prospectivity Review**

The offshore East African margin, including Kenya, has become an international “hot spot” for oil and gas exploration through major deepwater gas discoveries and an oil discovery offshore Tanzania and Mozambique. Pancontinental has interests in four exploration blocks in East Africa offshore Kenya.

An initial L10A & L10B review by operator BG Group has identified more than ten strong “leads” for follow-up by 3D and 2D seismic surveys. The leads are geologically varied, with six “play types” identified.

Pancontinental has been surprised by the diversity and size of the leads and plays identified in the operator’s initial review of L10A and L10B.

Under the “fast track” concept for the Blocks, the surveys aim to identify Prospects for drilling in the 2013 licence year.

Several of the leads have a similar character and are on-trend south of the giant Mbawa Prospect in L8 (Pancontinental 15%). These leads are large anticlinal features.

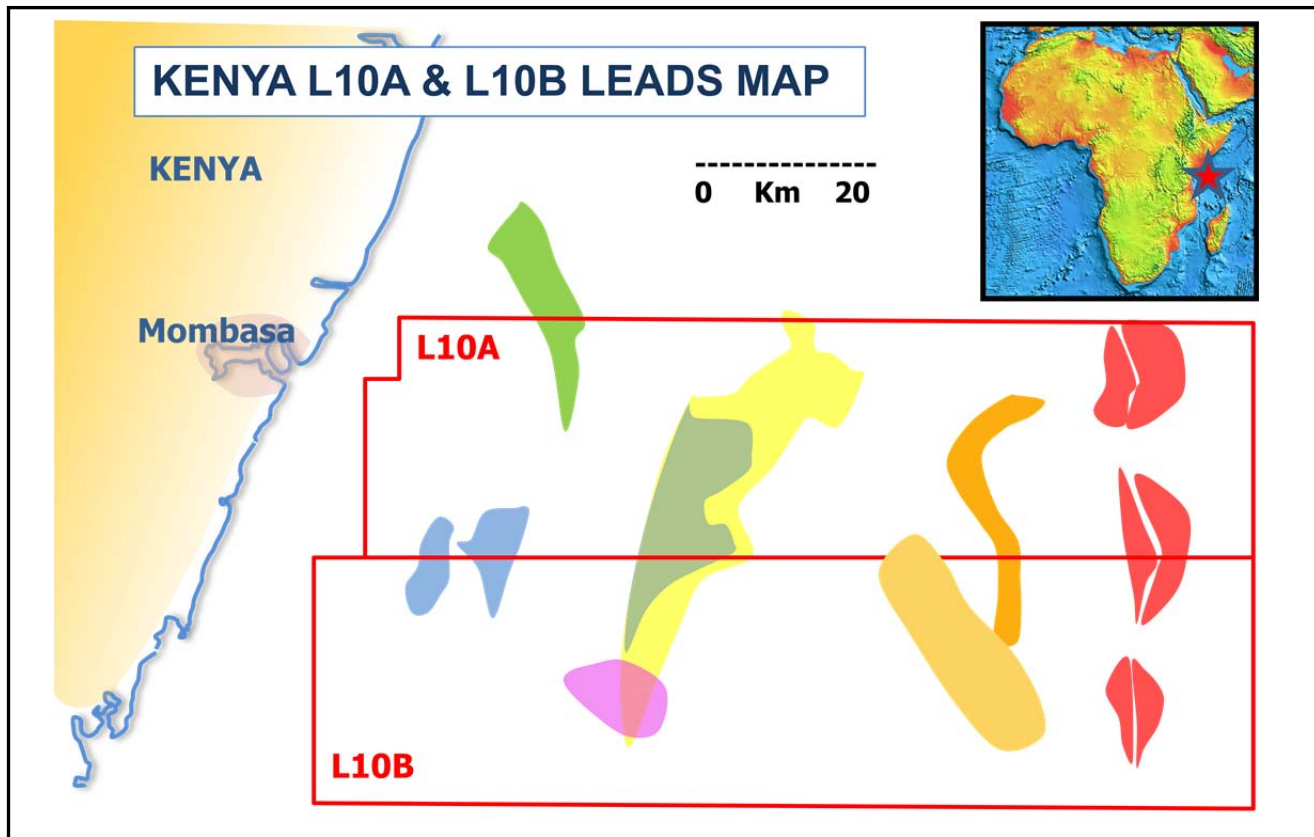
A number of other leads have potential in different parts of the geological section, including a large Upper Jurassic “reef”, Cretaceous and Tertiary channel and turbidite sands and Miocene reefs.

### **3D and 2D Seismic Surveys**

Extensive new 3D and 2D offshore seismic surveys commenced mid November 2011, and were completed mid January 2012. Processing and interpretation should be completed mid 2012.

The 3D survey covered leads in the eastern part of the Blocks, while the 2D survey was completed in the western part of the Blocks.

The aim of the surveys is to identify the most prospective prospects for drilling. Other planned work includes geological field sampling, gravity field attribute studies, heat flow modelling, seismic test reprocessing, basin modelling and seismic attribute studies.



#### **NAMIBIA OFFSHORE WALVIS BASIN EL 0037**

*Pancontinental Oil & Gas NL – 85%*

##### **Petroleum Agreement and Petroleum Exploration Licence**

Pancontinental announced that on 5 July 2011 it had received a signed Petroleum Agreement (“PA”) and Petroleum Exploration Licence No. 0037 (“EL”) from the Ministry of Mines and Energy of the Republic of Namibia, effective 28 June 2011. The PA and EL area is located in the Walvis Basin offshore northern Namibia.

The location of the PA and EL was selected over approximately 17,295 sq km after an earlier Reconnaissance Licence held by Pancontinental.

The EL gives exclusive rights to the holders for a first exploration period of four years followed by two additional periods of two years each and also provisions for the continuation of the exclusive rights under any oil or gas development.

Pancontinental holds the PA and EL (85% interest) with Namibian participant Paragon Holdings (Pty) Ltd (“Paragon”) (15% interest). In exchange for certain rights under a Joint Venture Agreement with Paragon, Pancontinental has agreed to “free carry” Paragon until the commencement of the development of any oil or gas discovery.

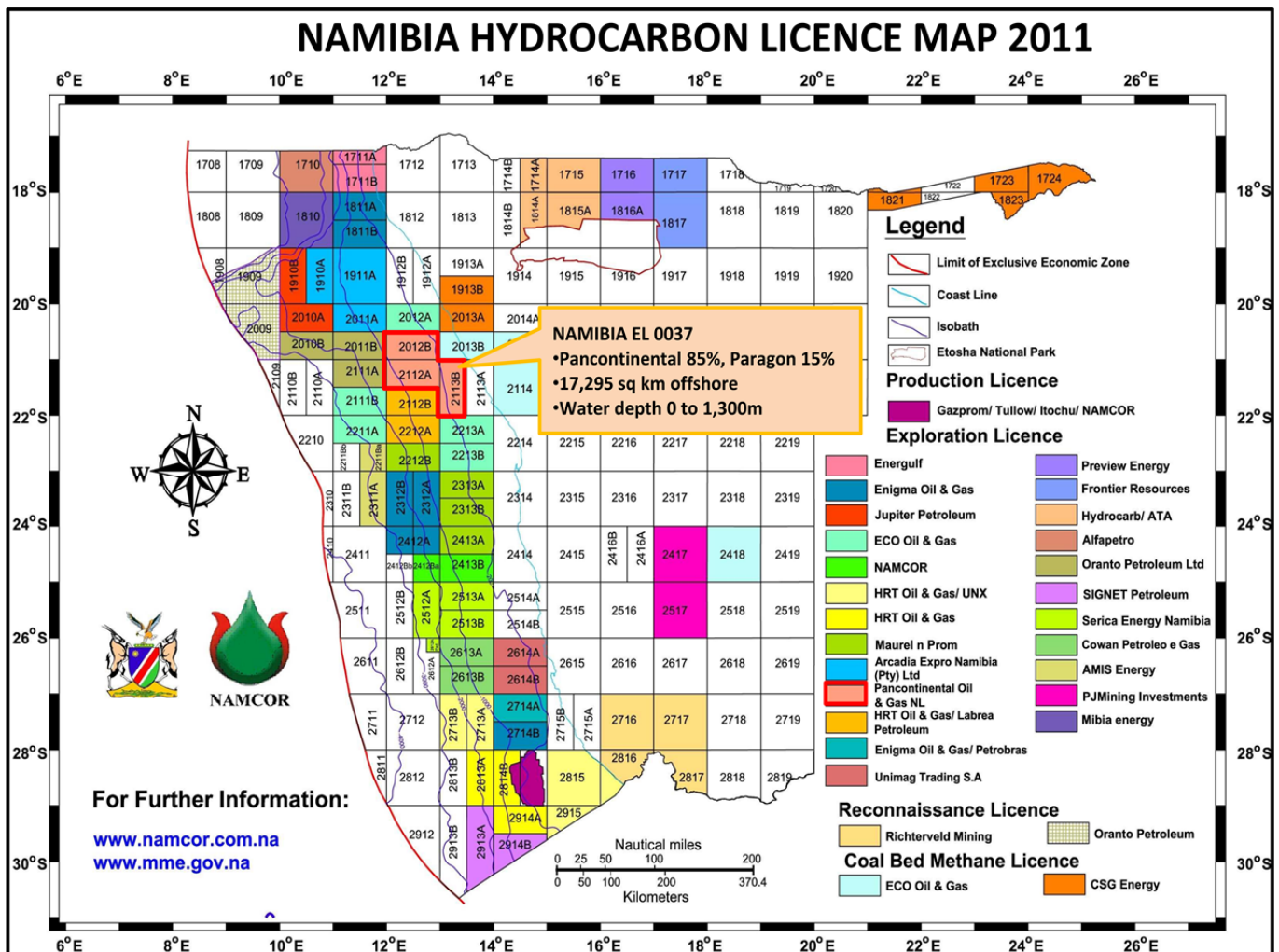
## Prospectivity offshore Namibia

Offshore Namibia is attracting significant international interest as an emerging oil and gas province in southwest Africa.

In Pancontinental's opinion offshore Namibia has the potential to hold very large oil and gas reserves and it is significantly under-explored. The very large 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 in recent years and it lies on the West African continental margin adjacent to Angola, where there have also been major oil discoveries.

Pancontinental will explore the ponded basin floor turbidites, slope fans and channels seen under the company's earlier Reconnaissance Licence. These targets are associated with a restricted graben trough interpreted to hold the rich and mature oil source rocks seen in regional wells.



Pancontinental has completed a study of the oil and gas prospectivity of the EL 0037 area and is proceeding to gather further data for mapping and additional studies.



On 17 October 2011, Pancontinental announced the appointment of a Namibia-based representative for the company's EL 0037 oil and gas exploration project offshore Namibia – see “Corporate” section below.

### **MALTA OFFSHORE AREA 5; AREA 4, BLOCK 3**

*Pancontinental Oil & Gas NL*

An application by Pancontinental to the Court in Malta for an injunction sought to be served on the Government of Malta (“Government”) was heard on the 9th December 2011.

The hearing followed an earlier interim injunction by the Court issued in favour of the Joint Venture to preserve the status quo pending the full hearing.

On 15 December 2011 Pancontinental received advice that the Company's request to the Court in Malta for a full injunction against the Government of Malta was not been acceded to by the Court.

The Company and its co-venturer, Sun Resources NL, will update shareholders on any further course of action, if any, that the Company intends to take in relation to this matter.

## **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.

#### **EP 406 OFFSHORE SHARK BAY, CARNARVON BASIN**

*Pancontinental Oil & Gas NL – 5%*

Permission is awaited to explore this area, which is subject to a Marine Park and World Heritage Listing.

### **NEW VENTURES**

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

### **CORPORATE**

#### **Capital Raising of A\$15 million**

On 1 December 2011 Pancontinental advised the ASX that it had resolved to raise \$15 million through a placement of 200 million shares at an issue price of 7.5 cents per share to sophisticated and professional investors ("the Placement").

Pancontinental's corporate advisor, Hartleys Limited, managed the Placement.



The Placement has been made predominantly to Investment Funds in London, elsewhere overseas and in Australia.

The funds raised pursuant to the Placement will be used to fund the following-

- Seismic program over Kenya L10A & L10B,
- Seismic program over Kenya L6,
- Seismic program over Namibia EL 0037,
- Pursue further growth opportunities in the oil and gas sector and
- General working capital.

The Company had capacity to issue up to 99.1 million shares in tranche one pursuant to the Company's 15% capacity under ASX Listing Rule 7.1 and the balance of 100.9 million shares being issued in tranche two was approved by shareholders at a General Meeting held on Monday, 9 January 2012. On 15 December 2011 the Company announced the completion of the first tranche of the Placement and on 9 January 2012 the Company also announced that a General Meeting of the Company held on the same day had approved the second tranche of the Placement.

The Placement included the entry of several of the world's largest and most respected institutional investment funds to the Pancontinental share register.

#### **Appointment of Representative in Namibia**

On 17 October 2011, Pancontinental announced the appointment of a Namibia-based representative for the Company's EL 0037 oil and gas exploration project offshore Namibia.

The appointee, Mr Ger Kegge, resides in Windhoek, the capital of Namibia.

Mr Kegge has very wide international experience including more than 30 years in technical, supervisory and managerial positions with upstream companies of the Royal Dutch / Shell group of companies and extensive experience in Namibia as the former Managing Director of Shell Exploration and Production Namibia B.V. and Shell Namibia Exploration B.V. More recently Mr Kegge was the Country Manager and Special Adviser for Tullow Oil plc in Namibia.

#### **Enquiries:**

**Barry Rushworth**

**CEO and Director**

**Tel: 08 9227 3220**

**Fax: 08 9227 3211**

**Email: [info@pancon.com.au](mailto:info@pancon.com.au)**

*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.*