

**PANCONTINENTAL OIL & GAS NL**

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QUARTERLY ACTIVITIES REPORT

December 2013

HIGHLIGHTS

- **Kenya L10A - Drilling Commences**
 - Sunbird-1 drilling commenced January 2014 - operations are continuing
 - Sunbird is the first-ever Miocene Pinnacle Reef drilled in East Africa
- **Kenya L6 – Farmout**
 - Farmout discussions progressing for seismic and drilling
- **Namibia EL 0037 - 3D Seismic Commences**
 - Extensive 3D and 2D seismic acquisition started January 2014 by Operator Tullow Oil in initial stage of farmin earning programme, at no cost to Pancontinental
- **Kenya L10B**
 - Joint Venture parties are considering a 2nd well potentially commencing mid-late 2014
- **Corporate**
 - Cash balance of \$34.4 million (31 December 2013)

ASX Code – PCL

Market Cap @ 4.4cps - \$50.6m

Issued shares – 1,151 million

Cash - \$34.4million at 31 December 2013

Pancontinental Oil and Gas NL (“Pancontinental”, the “Company”) is pleased to present the following report on activities for the quarter ending 31 December 2013.

INTERNATIONAL PROJECTS

KENYA

KENYA OFFSHORE AND ONSHORE

Pancontinental holds interests in four licences over approximately 20,000 sq km offshore and onshore Kenya.

Pancontinental continues to regard Kenya as one of the best and most stable business environments in Africa.

The Mbawa 1 gas discovery, the first ever discovery offshore Kenya, was made by Pancontinental and its L8 partners in 2012.

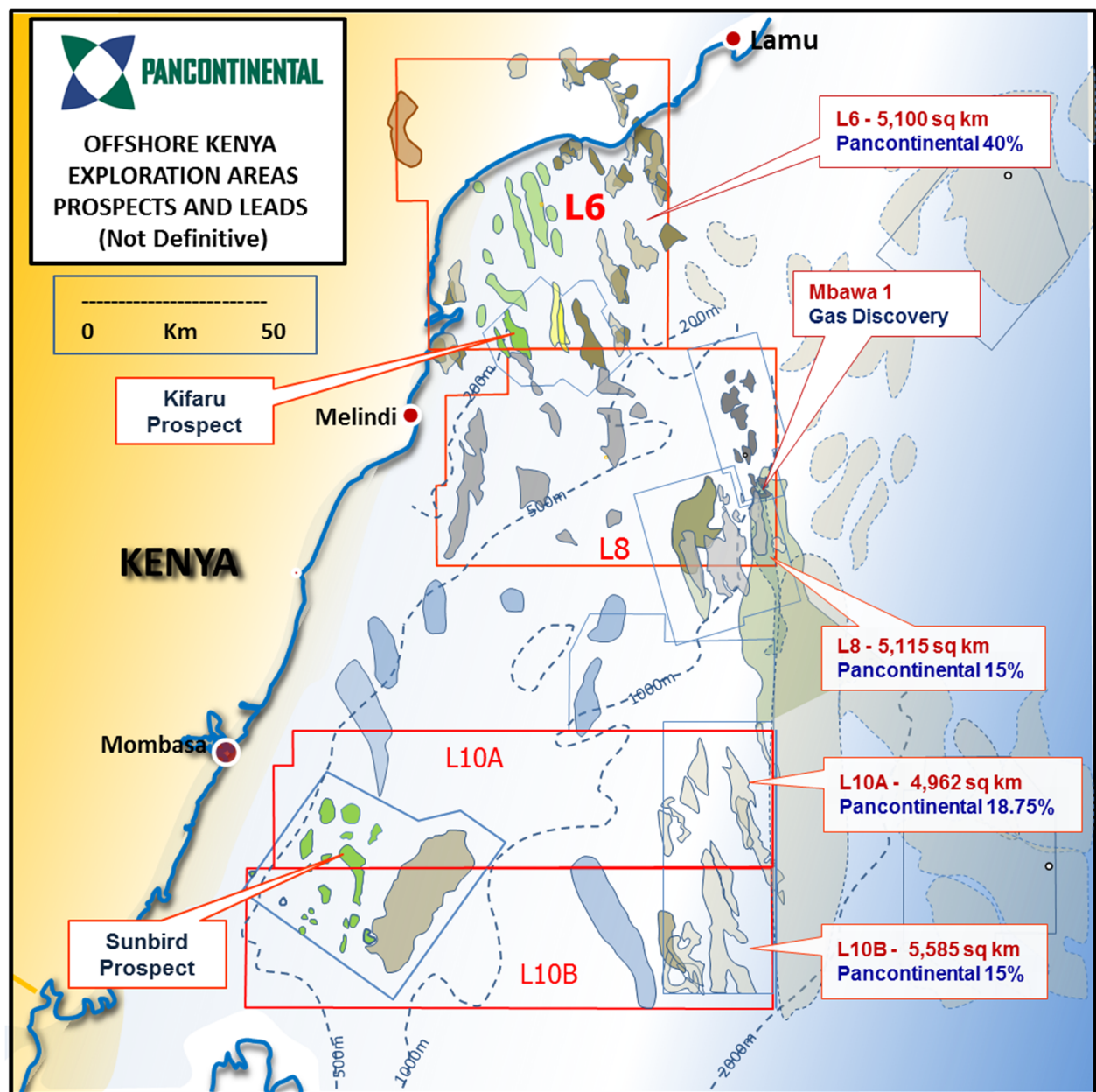


Figure 1: Map of Pancontinental Licence Areas Offshore Kenya

KENYA OFFSHORE BLOCKS L10A & L10B

Pancontinental Oil & Gas NL – 18.75% (L10A) & 15% (L10B)

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 (see Figure 1).

The L10A & L10B projects are operated by BG Group and the Joint Venture interests are-

Kenya L10 A BG Group (Operator) 50%
PTTEP 31.25%
Pancontinental 18.75%

Kenya L10B BG Group (Operator) 45%
PTTEP 15%
Premier Oil 25%
Pancontinental 15%

Sunbird-1 Drilling

On 6 January 2014, Pancontinental announced the commencement of drilling of the Sunbird-1 exploration well in area L10A.

Sunbird-1 is the first-ever test of a Miocene Pinnacle Reef offshore East Africa and the first-ever exploration well within L10A in the Lamu Basin offshore southern Kenya.

The well is managed by Joint Venture operator BG Group, using the drillship Deepsea Metro 1.

Sunbird-1 is expected to take 50 to 60 days to drill to 3,000m below sea level, with an option to extend to 3,700m. Water depth is 723m. Drilling operations are ongoing.

Extensive electronic wireline logging and pressure and fluid sampling are being undertaken. When it has been drilled to Total Depth, it is intended to plug and abandon the well in accordance with good oilfield practice regardless of the drilling outcome and it is planned to leave the well in a condition that would allow re-entry at a later date.

The Sunbird Prospect (see Figures 2, 3 and 4) straddles the western sector boundary of the L10A / L10B areas and is one of more than 20 buried Miocene Reef and reef-like features in Pancontinental's four licence areas offshore Kenya.

Miocene Reefs globally have a high record of success for oil and gas and they are often highly productive, due to high porosity and permeability.

Buried Miocene Reefs host large oil and gas reserves in a number of regions around the globe, such as the extensive reefs of Southeast Asia and the pinnacle reefs of Libya. Miocene Reefs are often relatively shallow (700 to 2,000m burial depth), and are noted for their high porosity, permeability, and high flow rates of oil and /or gas.

Sunbird is about 50km from the port of Mombasa and in relatively shallow water.

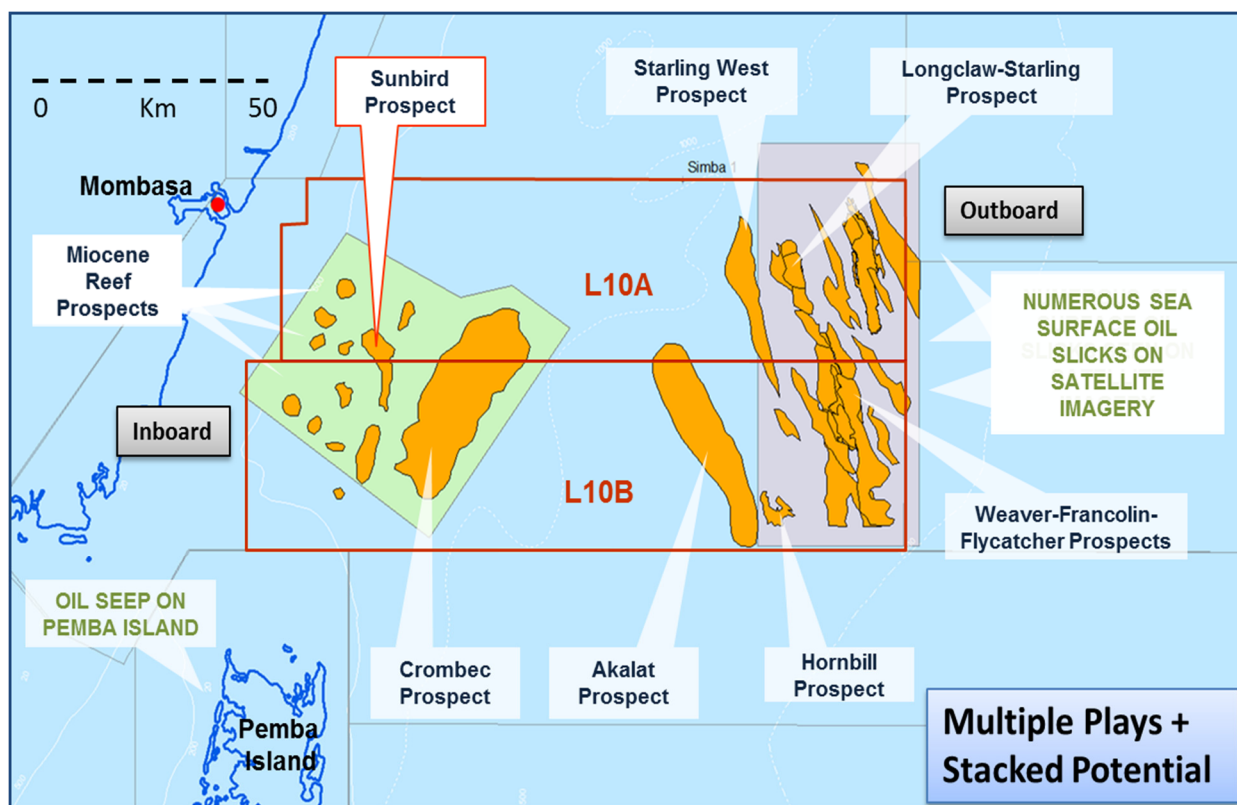


Figure 2: Map of L10A and L10B Prospects and Leads

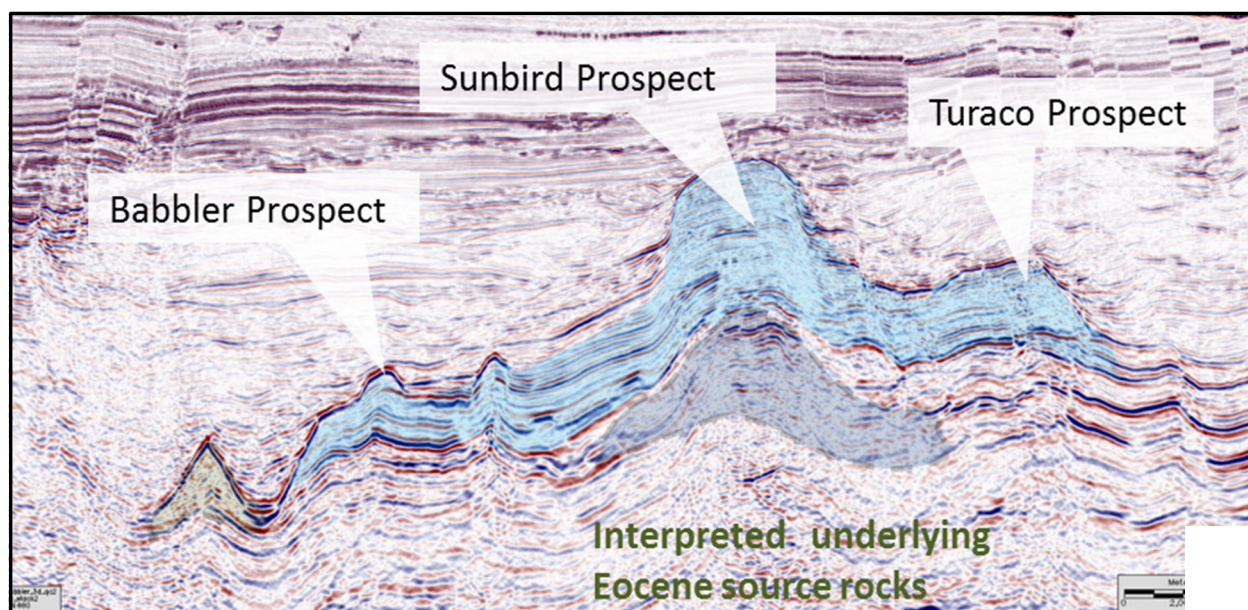


Figure 3: Seismic Cross Section through L10A / L10B Miocene Reef Prospects

The Sunbird Prospect covers an area of 73 sq km, including the flanking areas, with vertical relief of approximately 700m.

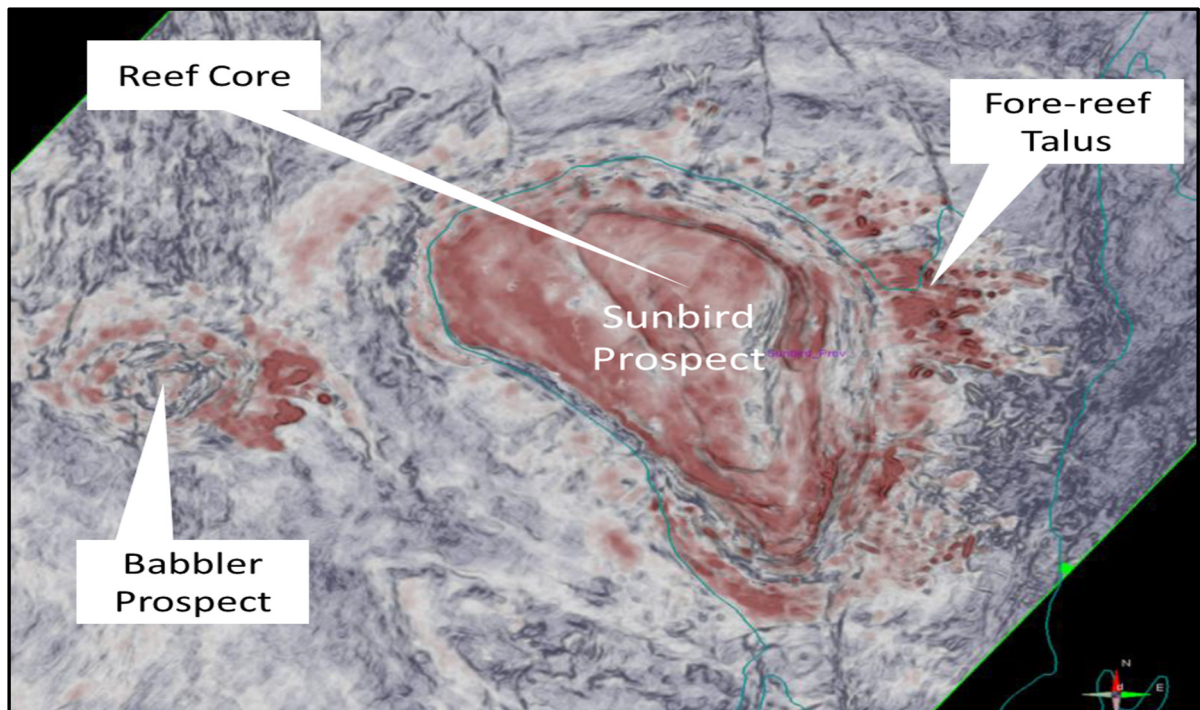


Figure 4: Seismic Image of Sunbird Prospect

Additional Drilling

The L10 Operator, BG Group, is continuing to map Prospects and Leads using the 4,800 sq km of high-quality 3D seismic data acquired over the last two years.

A number of other Prospects have been mapped for possible drilling after Sunbird-1, including clastic channel and other sandstone prospects that are still being mapped for a second well by the Joint Venture.

The Joint Venture is considering a second well potentially commencing mid-late 2014.

In the western sector the very large Crombec Lead continues to be mapped. Crombec is a large faulted anticline covering 550 sq km, with vertical relief of about 400m.

KENYA ONSHORE / OFFSHORE BLOCK L6

Pancontinental Oil & Gas NL – 40%

The L6 area is the northernmost of Pancontinental's four areas offshore Kenya. The L6 joint venture is operated by FAR Limited (60% - ASX: FAR).

L6 covers approximately 5,010 sq km with about one quarter onshore and the rest offshore to 400 meters water depth.

L6 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.

Farmout

Pancontinental and its L6 joint venture partner FAR Limited (L6 operator) are discussing the farmout of L6 with a number of other parties.

Any farmout will be announced in due course.

L6 Prospectivity

Onshore, the L6 Joint Venture has previously mapped a number of Leads and additional 2D seismic is required to mature these Leads for drilling. The most prospective leads being Kudu, Mamba (Updip Kipini) and the "Boundary Anticline".

Encouraging results were obtained from nearby Kipini-1 well, that is interpreted to be immediately downdip from the Mamba Lead.

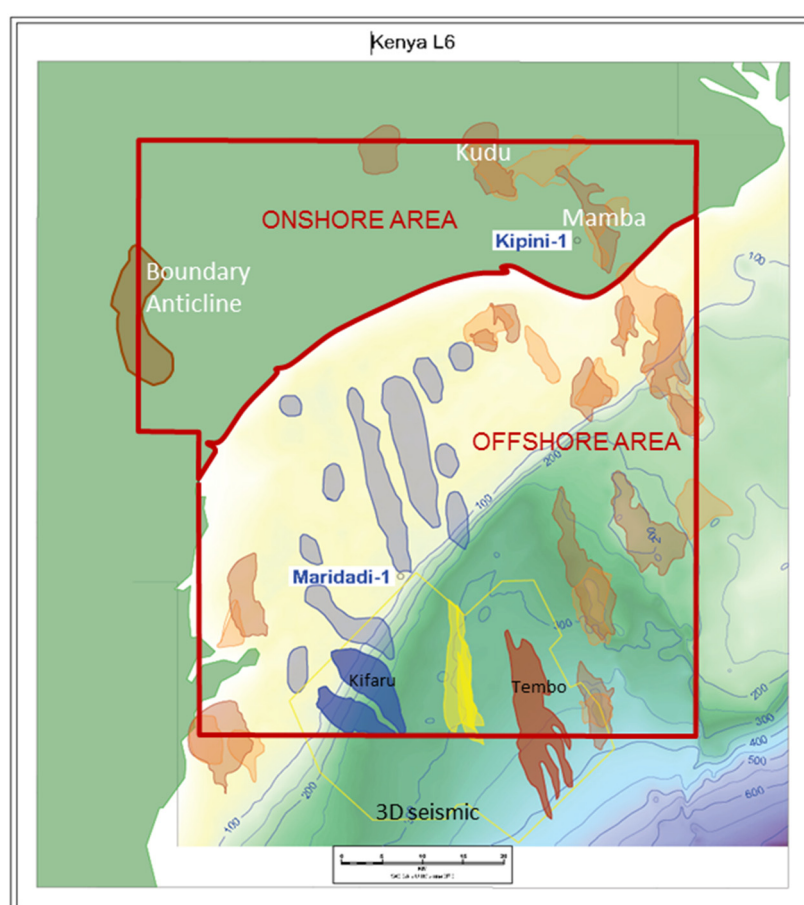


Figure 5: Map of Prospects and leads in L6 Licence Area

Three offshore prospects have been covered by 3D seismic (Kifaru, Kifaru West and Tembo).

A deep central trough extends from the onshore area into the offshore. This area is considered to be oil and gas "source kitchen" and potential hydrocarbon trapping prospects have been identified immediately adjacent to this area.

A number of oil and gas play types and prospects have been mapped. The largest prospect covered by the 3D Kifaru seismic survey is the Kifaru Prospect in water depths of 80m to 100m in the southwest of the L6 area.

The Kifaru Prospect and Kifaru West Prospects are interpreted to be large stacked Miocene reefs, with interpreted good lateral and top seals and close proximity to mature Eocene source rocks. A number of other interpreted Miocene Reefs have been identified to the north of the Kifaru area.

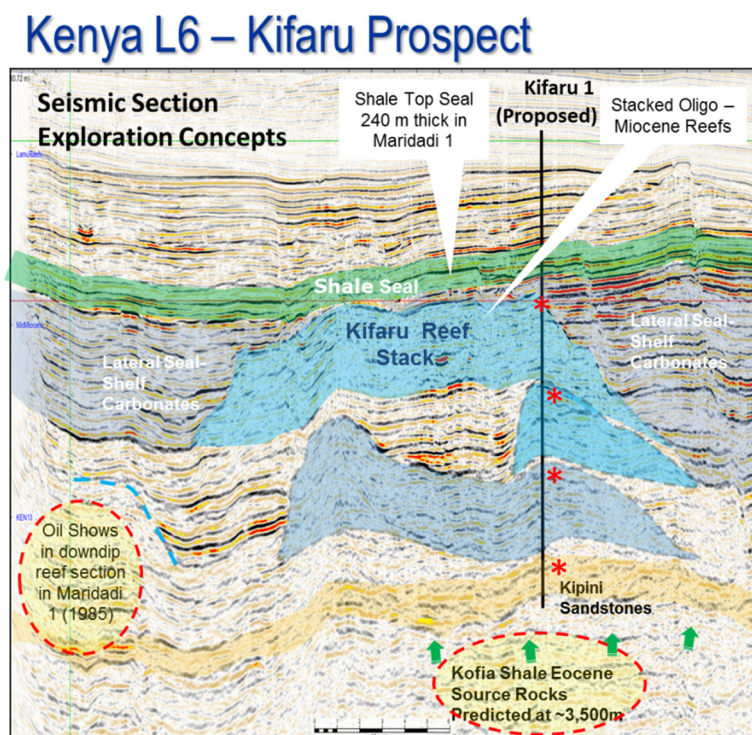


Figure 6: Seismic Section through the Kifaru Prospect

The Tembo Prospect is a large tilted fault block, interpreted to contain a number of sandstone targets.

Forward Programme

The L6 joint venture believes that it is in a strong position to secure a farminee for drilling. The location, timing, depth and stratigraphy of the well will be determined after discussions with any farminee.

KENYA OFFSHORE BLOCK L8

Pancontinental Oil & Gas NL 15% (Increasing to 42.86% after the Apache and Tullow Withdrawal becomes effective and subject to the continued extension of PSC L8)

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

The other Joint Venture participants and their participating interests prior to the withdrawal of Apache and Tullow were Apache Corporation (50%), Origin Energy Limited (20%) and Tullow Oil plc (15%).

Exploration Potential and Forward Programme

The L8 area contains part of the continuation of the trend of Miocene Reefs that is currently being tested by Sunbird-1 in area L10A.

L8 contains numerous Prospects and Leads to pursue for oil and Pancontinental is now looking forward to continuing exploration in a re-formed Joint Venture if the Production Sharing Contract for Kenya Block L8 ("PSC") is extended by the Government for a reasonable period of time.

Mbawa 1 (September 2012) was the first ever discovery offshore Kenya. Mbawa-1 intersected 51.8m of net gas pay in sandstones with favourable reservoir characteristics.

Following the Mbawa 1 discovery a major deeper play type has been identified. The deeper play is regarded as being oil prone, rather than gas prone.

In the deeper play the Kipungu Prospect is amongst the prospects considered for drilling. Kipungu and similar prospects are Lower Cretaceous channel and turbidite sandstone plays ("Tai Sands"), deeper than the gas discovery sands in Mbawa 1 and considered to be in a separate petroleum system that is more favourable to trap oil.

The PSC was due to expire on 21 January 2014 but the Kenyan Ministry of Energy and Petroleum granted a 30 day extension to 20 February 2014 to allow the Ministry, Origin and Pancontinental to agree on a suitable forward programme of exploration on Block L8 because Origin and Pancontinental had expressed their desire to continue exploration on the Block. Apache and Tullow have both indicated that they will not be continuing in the Block. It should be noted that Apache is now denying it has withdrawal from the Block L8 Joint Venture (which denial is not accepted by Pancontinental) and submits that the PSC has expired on 21 January 2014 despite the extension granted by the Ministry (which submission is also not accepted by Pancontinental). Discussions are ongoing.

NAMIBIA

NAMIBIA OFFSHORE EL 0037

Pancontinental Oil & Gas NL – 30%

Petroleum Exploration Licence No. 0037 ("EL 0037") covers approximately 17,295 sq km in the Walvis Basin offshore northern Namibia (see Figure 7).

The Namibia EL 0037 consortium consists of -

Tullow Kudu Limited ¹ (Operator)	65%
Pancontinental Namibia (Pty) Ltd²	30%
Paragon Oil & Gas (Pty) Ltd ³	5%

1 Tullow Kudu Limited is a wholly owned subsidiary of Tullow Oil plc

2 Pancontinental Namibia (Pty) Ltd is a wholly owned subsidiary of Pancontinental Oil & Gas NL

3 Paragon Oil & Gas (Pty) Ltd is a wholly owned subsidiary of Paragon Investment Holding's (Pty) Ltd

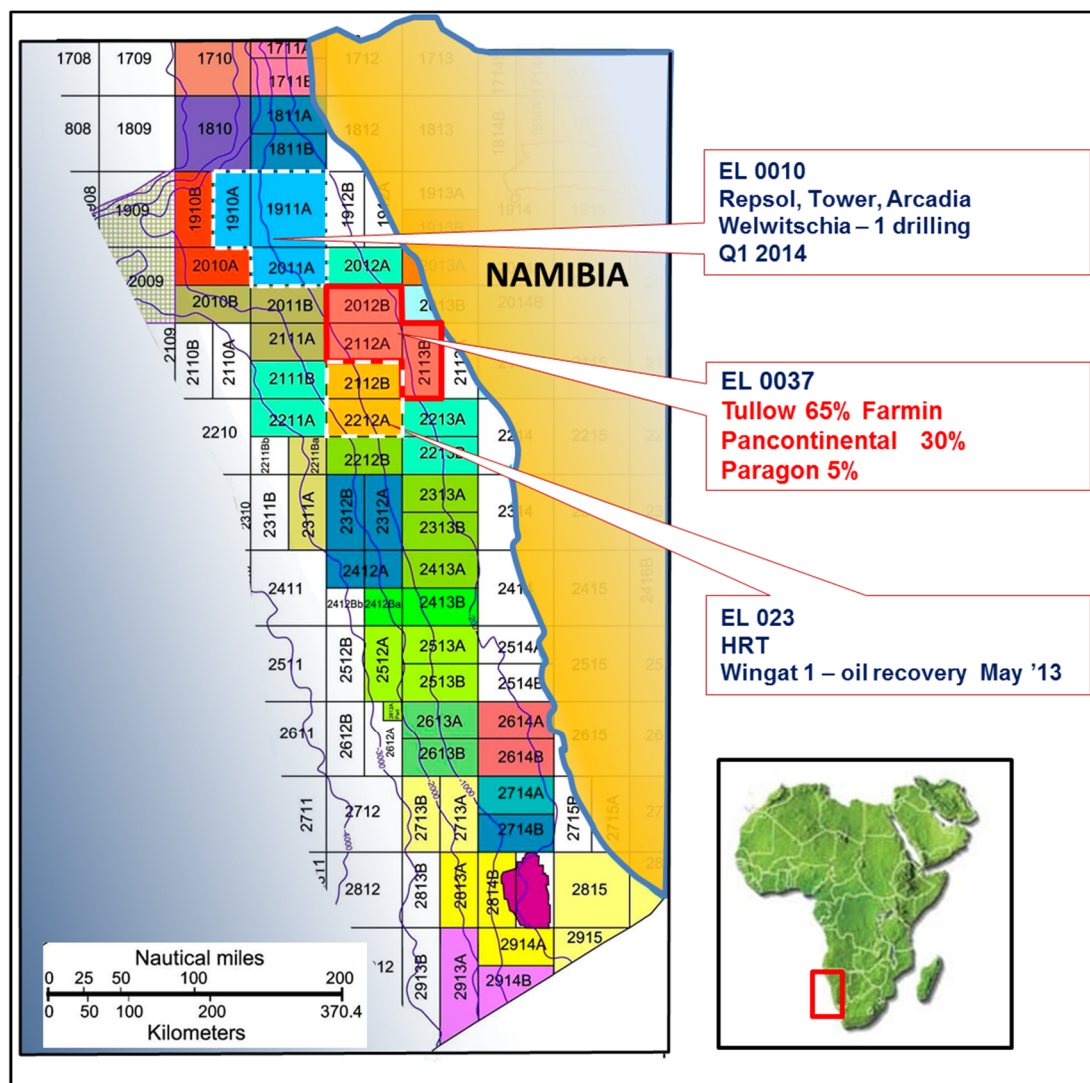


Figure 7 - Licence areas offshore Namibia

Commencement of 3D and 2D Seismic Acquisition under Farmin by Tullow Oil

On 17 January 2014, Pancontinental advised that a 3D seismic survey had commenced in Licence area EL 0037 offshore Namibia.

The 3D acquisition will cover approximately 3,000 sq km and a second acquisition phase of 2D data will cover approximately 1,000 line km. The total acquisition is expected take up to 120 days.

The survey is managed by the EL0037 Joint Venture operator Tullow Oil, using the seismic acquisition vessel Polarcus Asima (see Figure 8).

Tullow Oil farmed-in to EL 0037 in September 2013 and subsequently identified a number of geological Leads to be covered by the 3D survey. Pancontinental retains a 30% free-carried interest through the surveys and one optional well to be drilled by Tullow, for Tullow to retain its 65% interest. Pancontinental estimates that Tullow's farmin expenditure may be up to US\$130 million (100% basis) for the full work programme.



Figure 8 - Seismic Survey Vessel Polarcus Asima

Prospectivity Offshore Namibia

Pancontinental believes that a critical factor for oil exploration offshore Namibia is oil maturity- where source rocks are sufficiently buried and heated to generate oil - within the “Oil Window”.

Pancontinental has interpreted an “Oil Mature Fairway” that extends through EL 0037.

In an announcement on 20 May 2013, HRT stated that oil had been found in the Wingat 1 well, although not in commercial volumes; 4 samples of oil of 450cc each were recovered. Two well-developed source rocks, rich in organic carbon, were reported to have been penetrated and both are within the oil-generating window. Pancontinental regards Wingat -1 as within the Oil Mature Fairway.

EL 0037 is immediately on-trend and is geologically continuous to the Wingat area.

Pancontinental has mapped a number of large “leads” of which some are interpreted to be at approximately the same stratigraphic level as the oil found in Wingat-1, as well as close vertically to the interpreted oil source rocks.

The Oil Mature Fairway and Inner Graben are asymmetric, with considerably larger “fetch” for oil generation and migration on the Eastern side of the Graben, in EL 0037.

Crucially, the Oil Mature Fairway lies to the Eastern side of the axis of the Basin Floor and within the Eastern part of the Basin Floor and the Eastern Slope area (See Figure 9). Oil migration is therefore interpreted to be predominantly to the East.

Pancontinental therefore believes that the Eastern Flank is the environment that is most likely to contain volumes of trapped oil, and this is where EL 0037 is situated.

Offshore Namibia – Exploration Concepts

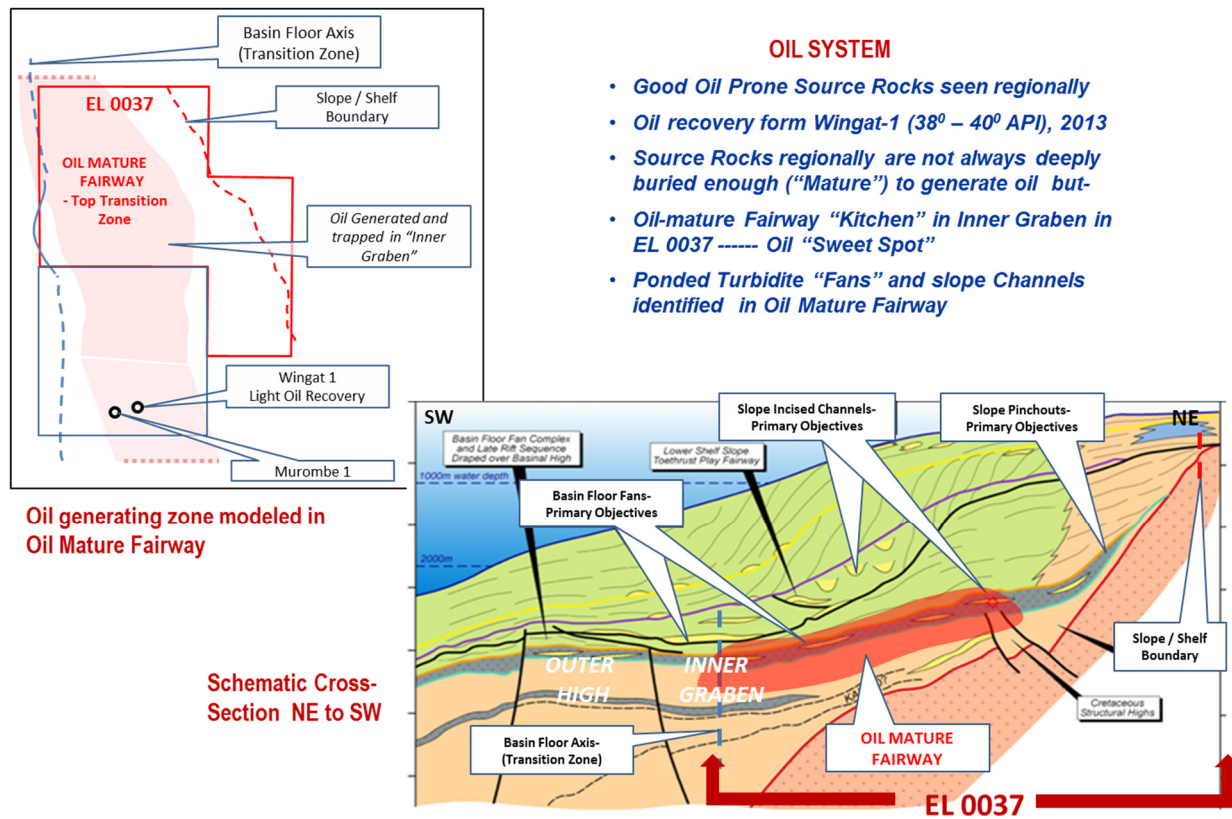


Figure 9: Play Concept Diagram - Namibia EL 0037

Forward Work Programme

The EL 0037 Joint Venture now led by Operator Tullow Oil has commenced an exploration programme consisting of-

- 3,000 sq km of 3D Seismic acquisition, processing and interpretation
- 2,000 linear km of 2D Seismic
- Depending on the outcome of the seismic programmes, one exploration well by Tullow to retain its 65% interest.

AUSTRALIA

EP 104 / R1 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL – 11.11%

The RL1 area has been excised from the EP 104 exploration area to allow retention of the Point Torment gas discovery and the Stokes Bay 1 area. RL1 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 is undertaking an examination of the prospectivity of the licence areas to plan a revised forward programme.

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.

The L15 Joint Venture is considering upgrading the existing production facility and restore oil production from West Kora -1.

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.

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 farming out 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.

The Joint Venture is considering a further review aimed at outlining possible onshore leads and prospects in EP 110.

PERMIT SCHEDULE

Permit Location	Permit Reference	PCL (consolidated) interest at the beginning of the quarter	Movements for the current quarter	PCL (consolidated) interest at the end of the quarter
Western Australia	EP 104 (R1)	11.11%	0%	11.11%
	EP 110	38.462%	0%	38.462%
	EP 424	38.462%	0%	38.462%
	L15	12%	0%	12.00%
Kenya	L6	40%	0%	40.00%
	L8	15%	0%	15.00%
	L10A	15%	3.75%	18.75%
	L10B	15%	0%	15.00%
Namibia	EL 0037	95%	-65%	30.00%

CORPORATE

Cash Position

As at 31 December 2013, Pancontinental's cash position was \$34.4 million.

The major items of expenditure during the December 2013 Quarter were Exploration and Evaluation (\$0.67 million) and Administration (\$0.43 million).

New Ventures

Pancontinental continues to review other exploration and acquisition opportunities in Africa and elsewhere, and intends to grow the asset portfolio should these new assets meet the Company's stringent selection process.

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Disclaimers

Any estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

This document may include forward looking statements. Forward looking statements include, are not necessarily limited to, statements concerning Pancontinental's planned operation program and other statements that are not historic facts. When used in this document, the words such as "could", "plan", "estimate", "expect", "intend", "may", "potential", "should" and similar expressions are forward looking statements. Although Pancontinental believes its expectations reflected in these are reasonable, such statements involve risks and uncertainties, and no assurance can be given that actual results will be consistent with these forward looking statements.