



PANCONTINENTAL

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
Web: www.pancon.com.au

ASX Companies Announcement Office

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KENYA L8 - MBAWA DISCOVERY PRELIMINARY UPDATE

- **Natural gas discovery - first ever hydrocarbon discovery offshore Kenya**
- **Gas recovered from the discovery zone is interpreted to be thermogenic and derived from a possible Type II mixed gas / oil source rock**
- **Traces of dull fluorescence remain to be analysed and interpreted**
- **Mbawa 1 drilled ahead of schedule and left in a condition allowing re-entry at a later date**
- **Analysis of samples and data from drilling is ongoing**
- **The forward work programme is being considered in the light of the Mbawa results**

Pancontinental Oil & Gas NL ("Pancontinental") is pleased to provide a summary of the interim results from the Mbawa 1 discovery well drilled offshore Kenya. 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.

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%). The well was plugged and abandoned according to the drilling programme and has been left in a state that allows re-entry.

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

Interim Results & Preliminary Interpretation

Preliminary interpretation of the Mbawa 1 results has been given to the L8 joint venture by the operator Apache.

Mbawa 1 tested a faulted four-way dip closure at the southern end of the larger north-south trending four-way closed sub-regional Mbawa Prospect of 160 sq km (40,000 acre). The primary target was the Upper Cretaceous turbidite sandstone interval. Secondary objectives were Eocene and Middle Cretaceous turbidite reservoirs.

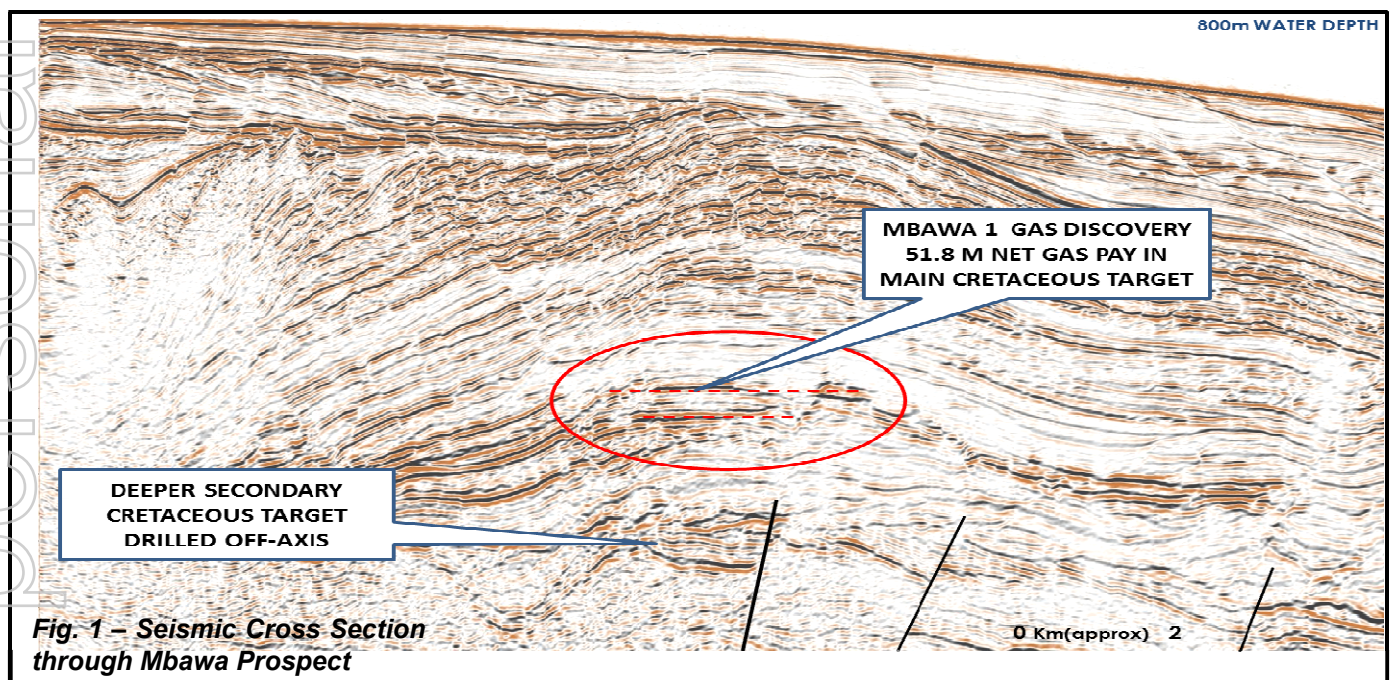
At the primary target level, 51.8 net metres (~170 feet) of natural gas pay were encountered in three zones of Upper Cretaceous channel and turbidite sandstones. Porosities were very favourable at an average of approximately 24%. The discovery was on a single localised structural culmination on the southern extremity of the overall Mbawa Prospect and the potential of the remainder of the structure remains to be assessed in the light of the Mbawa results.

The well was designed to optimally test the shallower Upper Cretaceous discovery target, however it was not possible to also optimally test the deeper secondary Middle Cretaceous target. The deeper target remains to be properly tested and Pancontinental believes that this, as well as other prospects of this play type, and the Mbawa discovery play type itself still hold considerable potential in the Mbawa vicinity, elsewhere in the L8 area, and regionally.

Fluid samples, pressure measurements, electronic logs and sidewalls cores were taken while drilling and these continue to be analysed and interpreted.

The significance of traces of dull fluorescence seen while drilling will be further interpreted once samples have been fully analysed.

Gas recovered from the discovery zone is interpreted to be thermogenic and derived from a possible Type II mixed gas / oil source rock. The extent and age of this source rock is subject to further analysis. Pancontinental believes that this very encouraging finding means that the potential for oil discoveries remains open and there may also be further extensive hydrocarbon resources both locally and regionally.



What Has Been Achieved

The Mbawa 1 discovery well has:

- Proven a working hydrocarbon system offshore Kenya in the Cretaceous; this has opened a new hydrocarbon region offshore East Africa.
- Made an important gas discovery. The volume of gas discovered and the follow-up potential remain to be determined by ongoing work.
- Provided evidence supporting a thermogenic origin of the gas from an interpreted mature Type II (gas / oil) source. Traces of fluorescence was seen, and the importance of this remains to be determined.

- 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.
- In Pancontinental's opinion, upgraded major regional play types for further exploration and highlighted the potential of all of Pancontinental's Kenyan acreage.

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.

The size of the gas discovery on the southern culmination of the Mbawa structure continues to be evaluated, as well as the follow - up potential in other culminations on the Mbawa structure and the potential in nearby structures. The commercial potential (if any) of the overall structure at the discovery depth also continues to be evaluated.

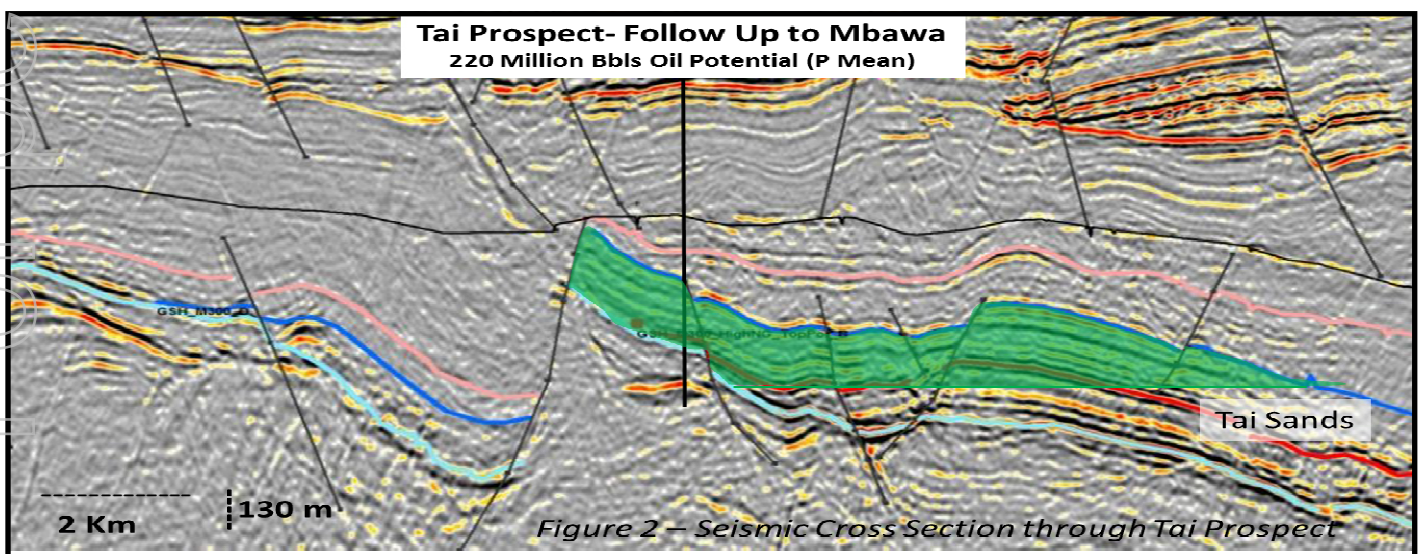
Commerciality is rarely defined from the outcome of one discovery well in isolation in a frontier basin. Revised technical studies and, if warranted, further drilling and appraisal work are required to define a resource and to determine the commercial potential (if any) of that resource with confidence.

L8 - Forward Exploration Programme

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

Although no firm decision to drill a second well has yet been made, the Mbawa 3D seismic survey and the more recent Nanaa 3D survey areas are currently the prime areas of consideration.

The Tai Prospect is one of the main prospects under consideration. The Tai Sands of interpreted Middle Cretaceous age are deeper than the sands at the discovery level in Mbawa 1 and are considered to potentially be in a separate petroleum system.



The Bigger Picture Offshore Kenya

The Mbawa Prospect is one of a number of prospects at different geological levels in the L8 area and the first to be drilled out of numerous prospects and leads in Pancontinental's four licence areas offshore Kenya (see Fig. 3).

The Mbawa gas discovery establishes the existence of a working hydrocarbon system offshore Kenya. The source material of the gas is interpreted to be a thermally mature mixed gas and oil-prone source and this means that oil may also have been generated at some time from the same source rock. 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 of oil and gas exploration offshore Kenya.

Pancontinental has participated in four 3D surveys offshore Kenyan and these have generated numerous Prospects and Leads. Another 3D survey is planned in the L10 Blocks in November 2012.

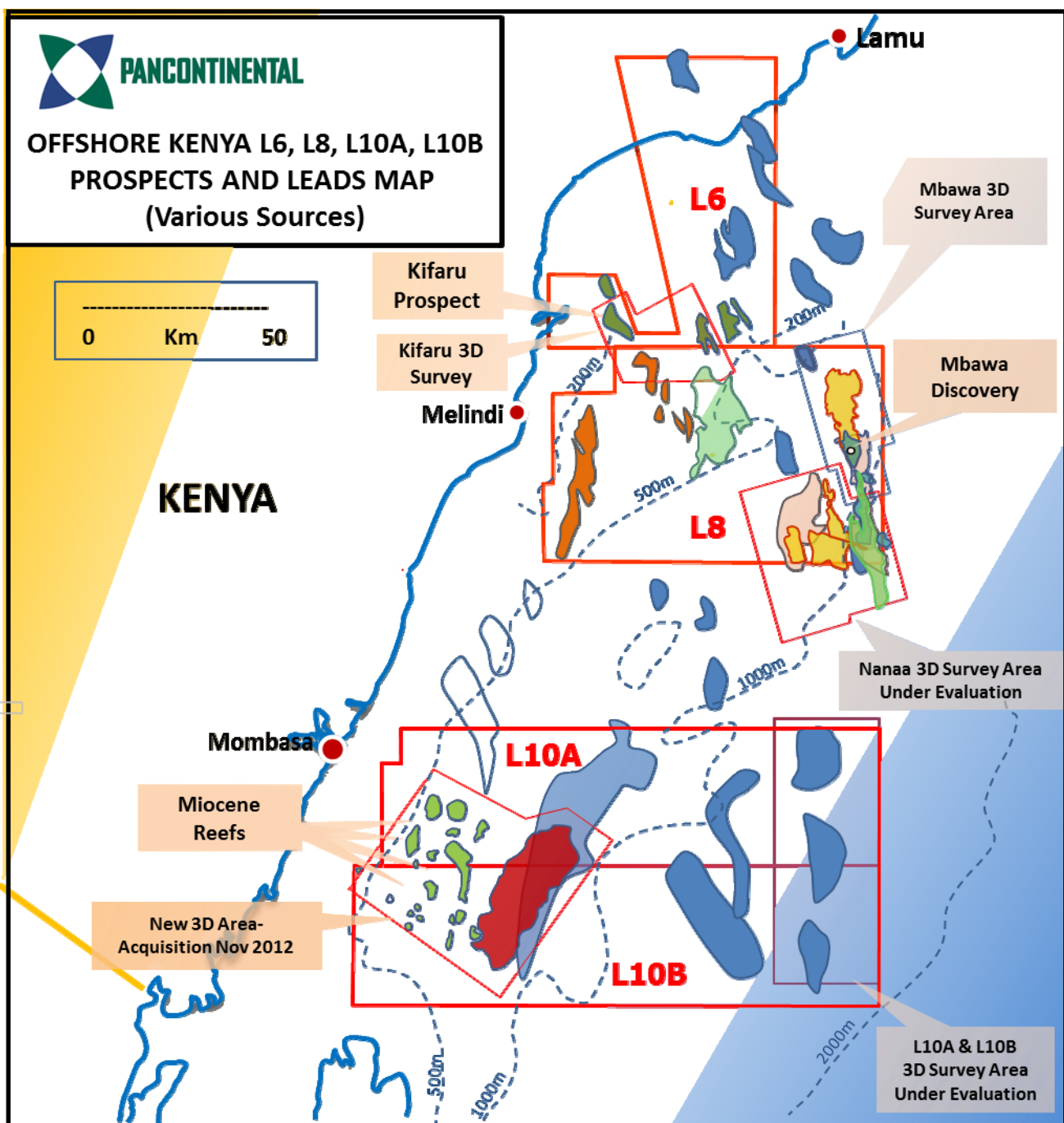
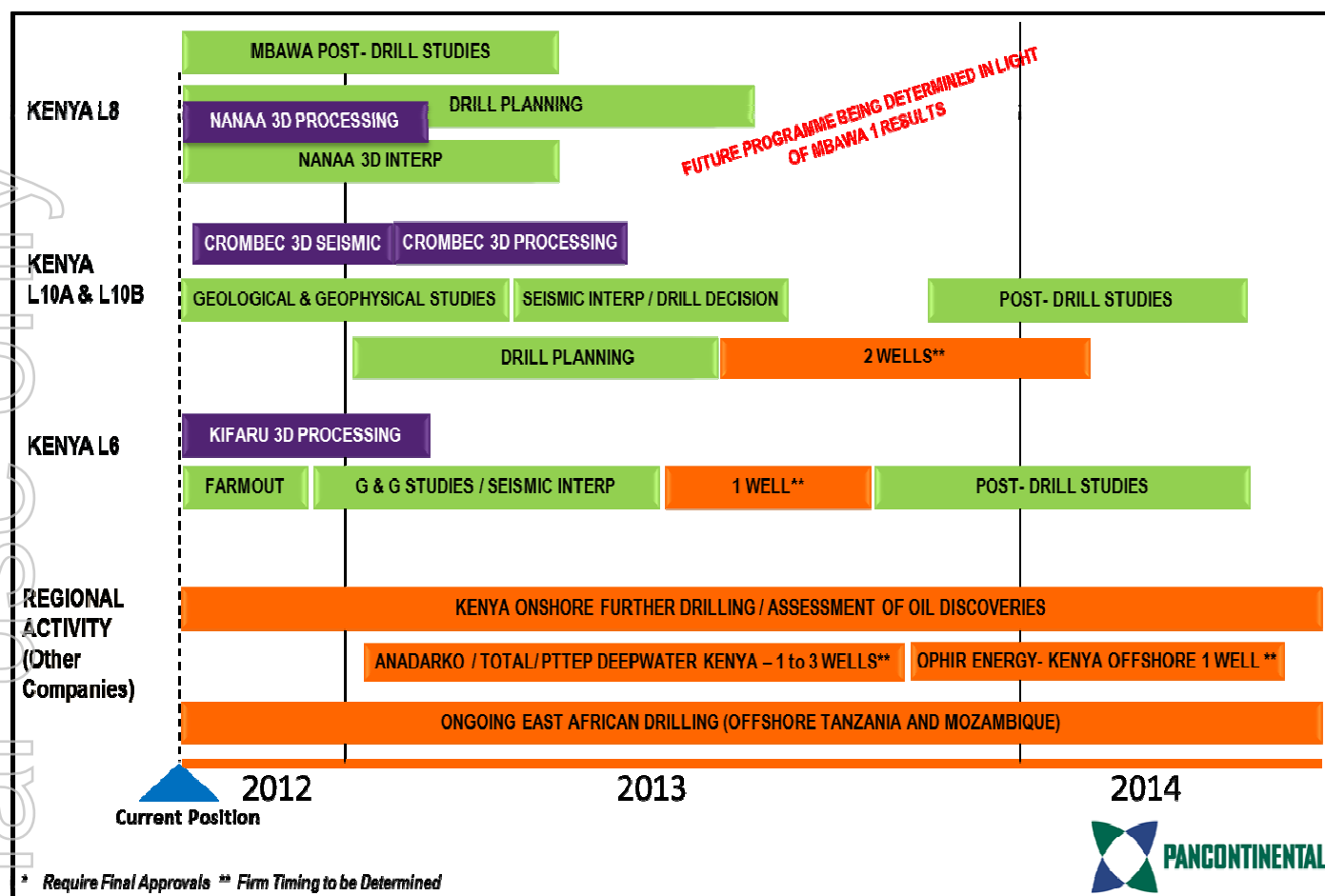


Figure 3- Pancontinental Licence areas, Prospects and Leads and 3D Seismic Areas offshore Kenya

Pancontinental is well funded for exposure to 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 (see Figure 4 below).



The above timetable is indicative only. More accurate timing of activities will be determined when government approvals, availability of rigs and seismic vessels are confirmed (where necessary). Regional activity has been estimated using company announcements and is not intended to provide a comprehensive review of all regional activity.

Figure 4- Pancontinental Kenyan Indicative Exploration Schedule

Mr Barry Rushworth, CEO and Director of Pancontinental commented:

"The Mbawa discovery is a great start to our Kenya drilling and we are extremely pleased to have made the historic first-ever discovery offshore Kenya. The opportunity to discover oil has by no means been dispelled by finding gas at Mbawa. Trace fluorescence seen in Mbawa may be a significant clue and it is being closely examined.

Much work has commenced on evaluating the Mbawa discovery and determining what it means for future exploration. We believe that we have only just seen the beginning of the first wave of discoveries offshore Kenya.

We are in an exciting stage for oil and gas exploration in Kenya, particularly considering that we are operating in East Africa where success rates are as high as 80%. The string of world class discoveries further south offshore Mozambique and Tanzania started in a similar way to our first Kenyan discovery and we have good reason to be extremely enthusiastic about the future here.

As in virtually all frontier areas, the first discovery paves the way for much better informed, and often more successful, future exploration. We see Mbawa, the numerous other prospects and

the diversity of play types as a multi-layered series of opportunities in both L8 and our three other Kenyan areas and we are confident these will grow and mature as exploration continues.

Oil remains our prime focus offshore Kenya and this has not been diminished by discovering gas in Mbawa.

Pancontinental holds a unique position in two of the newest oil and gas frontiers globally [Kenya and Namibia], where both regions are on the cusp of game-changing drilling programmes. With approximately \$40 million in cash Pancontinental is well positioned for an exciting 12-18 months ahead”.

ABOUT PANCONTINENTAL

Pancontinental Oil & Gas is listed on the Australian Securities Exchange (ASX: PCL).

Pancontinental is included in the S&P ASX 300 Index.

Pancontinental has a 15%* interest in offshore Kenya licence L8 (operated by Apache Corporation), a 40% interest in the adjacent licence L6 and a 15% interest in Kenya licences L10A and L10B, operated by BG Group. The L8 licence area contains the recent Mbawa gas discovery, the first ever substantive hydrocarbon discovery offshore Kenya.

Co-venturers in these four Kenyan licences (although not in each licence) are Apache Corporation, Tullow Oil, Origin Energy, Cove Energy (PTTEP), Premier Oil, BG Group and FAR Limited.

Offshore Namibia, Pancontinental was awarded the 17,000 sq km licence EL 0037 in 2011. Pancontinental holds 95% and is the operator of this licence.

* Tullow Oil has an option to earn a further 5%.

Pancontinental's website is www.pancon.com.au/

Yours sincerely for and on behalf of
Pancontinental Oil & Gas NL



Barry Rushworth, CEO and Director

The summary report on the oil and gas projects is based on information compiled by Mr R B Rushworth, BSc, MAAPG, MPESGB, MPESA, 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.