

**PANCONTINENTAL OIL & GAS NL**

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

- **Kenya L8- Mbawa Prospect - drilling expected to commence August 2012**
- **Kenya L6 Kifaru 3D seismic survey completed July 2012**
- **Successful capital raising for high impact African exploration**
- **Pancontinental acquires additional 10% interest in Namibia EL 0037 (July 2012)**
- **Kenya L10A & L10B – processing and interpretation continues on 3D and 2D seismic data**

INTERNATIONAL PROJECTS**KENYA OFFSHORE BLOCK L8*****Pancontinental Oil & Gas NL 15%*****Mbawa Prospect Drilling Schedule**

Kenya L8 licence operator Apache Corporation has contracted the Deepsea Metro 1 to drill the giant Mbawa Prospect, estimated to commence in August 2012.

The well is expected to take between 45 and 60 days to complete to a total depth of 3,250m subsea in water depth of 860m, easily within the range of modern equipment.

Pancontinental is pursuing what it considers to be a major oil play rather than a gas play offshore Kenya. Significant potential will be tested at three main levels.

At the main Tertiary / Cretaceous level, Pancontinental estimates that Mbawa has maximum potential to contain 4.9 Billion Barrels of oil in place. Only drilling is capable of verifying the oil and gas volumetric potential (if any) of the Mbawa Prospect.

The economics of oil developments are often considerably better than those for gas, with potential for much earlier cash flow and much lower development costs compared to LNG in similar settings.

Pancontinental has a 15% interest in Mbawa drilling “free-carried” by Tullow Oil plc up to a “cap” of US\$ 9 million (as reduced by other exploration expenditure). After the first earning phase Tullow Oil plc will have an option to earn a further 5% by providing funding on Pancontinental’s behalf to a “cap” of US\$6 million in any second well.

Pancontinental will contribute to the Mbawa cost due to increased drilling costs and the partial drawdown of the Tullow farmin for the Nanaa 3D seismic survey.

Nanaa 3D Seismic Completed

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

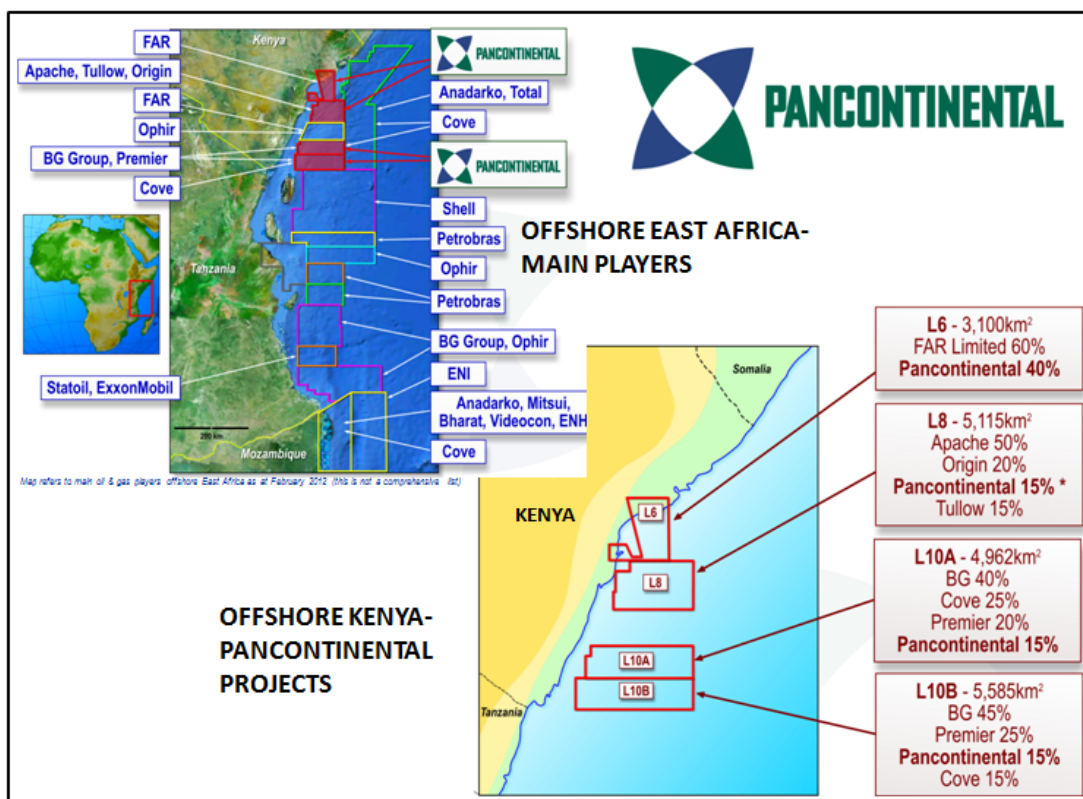
The survey covers additional large leads in the region of the Mbawa Prospect. Data processing and interpretation are expected to be completed by the end of Q3 2012.

In the event of success on Mbawa, Pancontinental expects to have a substantial ready-made inventory of high volume follow-up opportunities for drilling.

Kenya Offshore Block L8 and Lamu Basin Prospectivity

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

Pancontinental believes that it has identified an oil-prone “sweet spot” offshore Kenya and this will first be tested by drilling the giant Mbawa Prospect in L8.



Pancontinental has acquired interests in four licences offshore Kenya; L6, L8, L10A and L10B, covering more than 18,000 square kilometres in the Lamu Basin and Tana Delta.

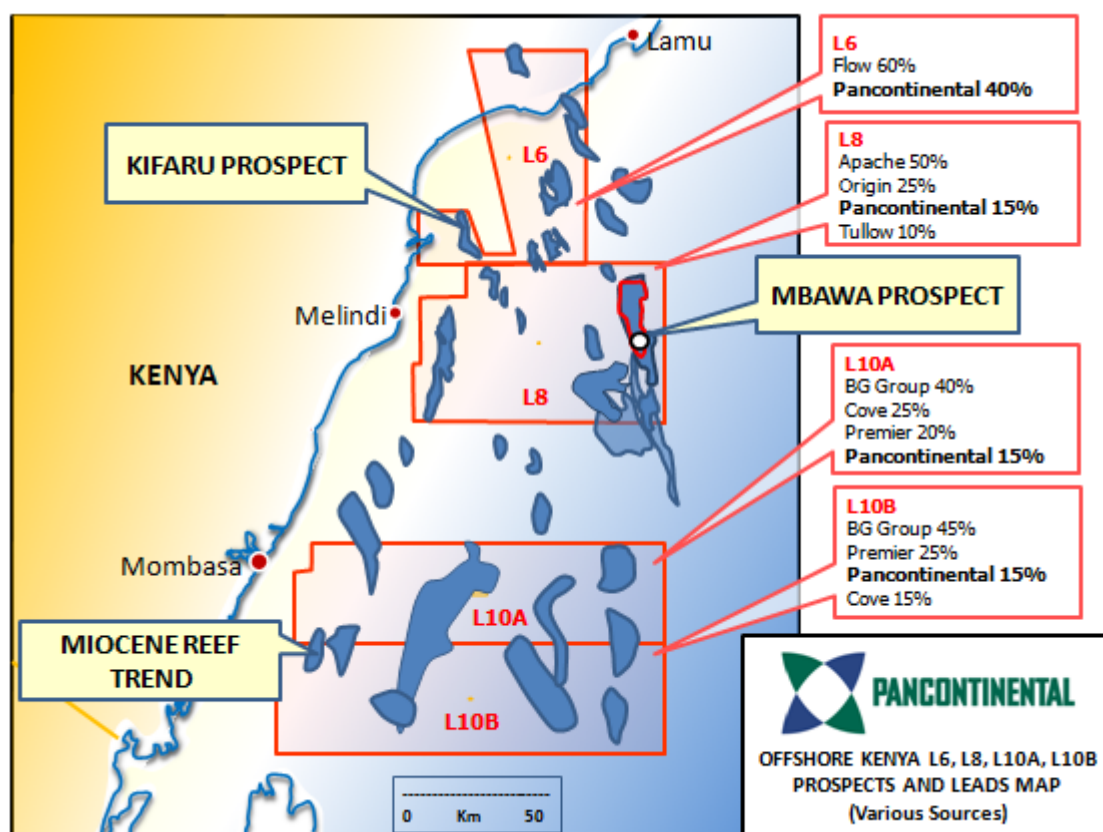
Pancontinental's concepts are supported by the entry of notable international companies in L8 and in L10A and L10B, although only drilling has the capability to confirm the concepts.

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

The inverted structural setting of this part of the Lamu Basin has combined with a restricted depositional environment between the Davie Ridge and a faulted rift margin high. There is interpreted to be a thick oil prone potential source interval, closure in prospects / leads directly above the source interval and optimal structural timing and source maturation and migration. Seismic "flat spots", AVO anomalies and interpreted naturally occurring oil seeps support the concept of oil generation and entrapment.

Gas discoveries of world-class scale continue to be made offshore Tanzania and Mozambique with potential to supply a significant portion of the future world LNG market. The green-fields setting opens an opportunity for significantly lower development and production costs than existing projects, as in Australia, for example.

Drilling is now moving north, offshore Kenya, with the first well on Mbawa (PCL 15%) and one or two deeper wells planned by Anadarko for H2 2012. Onshore Kenya, the recent Ngamia 1 oil discovery by Tullow adds further encouragement.



KENYA ONSHORE / OFFSHORE BLOCK L6

Pancontinental Oil & Gas NL – 40%

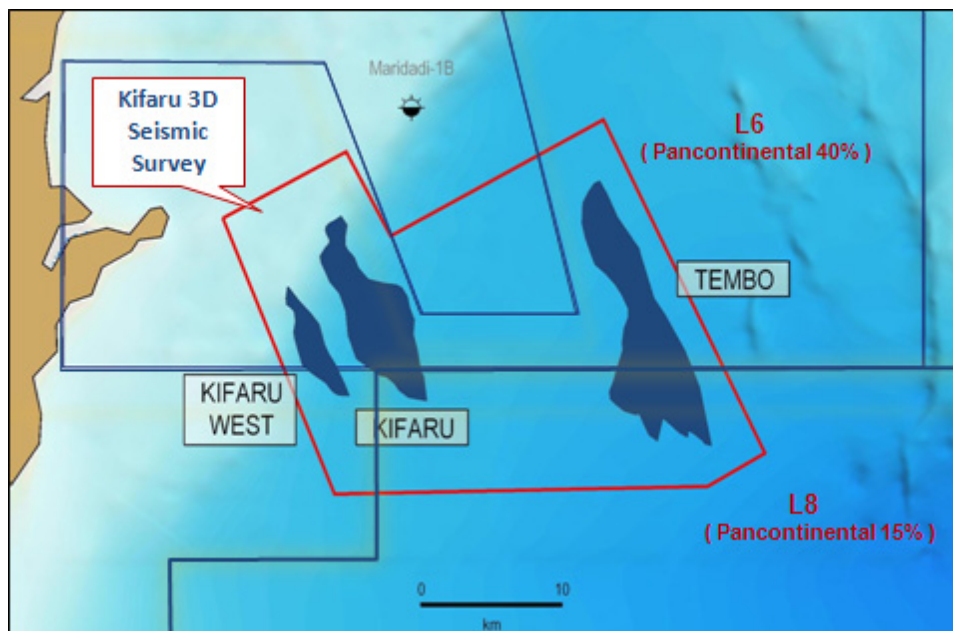
Kifaru 3D Seismic Survey Completion

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 largest Kifaru Prospect 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 / 2014.

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 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.

Modern high quality 3D seismic surveying is now able to provide high-definition images of sub-surface structures and this has proven to be highly successful in the discoveries offshore Mozambique and Tanzania.

Pancontinental predicts that offshore Kenya is oil-prone rather than gas-prone.

Including the Kifaru Survey, Pancontinental has now participated in four 3D surveys as preliminaries to drilling in its four Kenyan exploration areas. Pancontinental is the longest - standing oil and gas explorer in Kenya, onshore or offshore. Pancontinental has a 40% interest in the L6 licence, with the remaining 60% held by the operator FAR Limited.

KENYA OFFSHORE BLOCKS L10A & L10B

Pancontinental Oil & Gas NL – 15%

3D and 2D Seismic Surveys

Extensive new 3D and 2D offshore seismic surveys were completed mid January 2012 in areas L10A and L10B. Processing and interpretation continued during the quarter.

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.

It is anticipated that a number of prospects will be ready for drilling from as early as Q4 2012, although rig and equipment availability mean that any drilling will most likely take place sometime later.

L10A and L10B Prospectivity

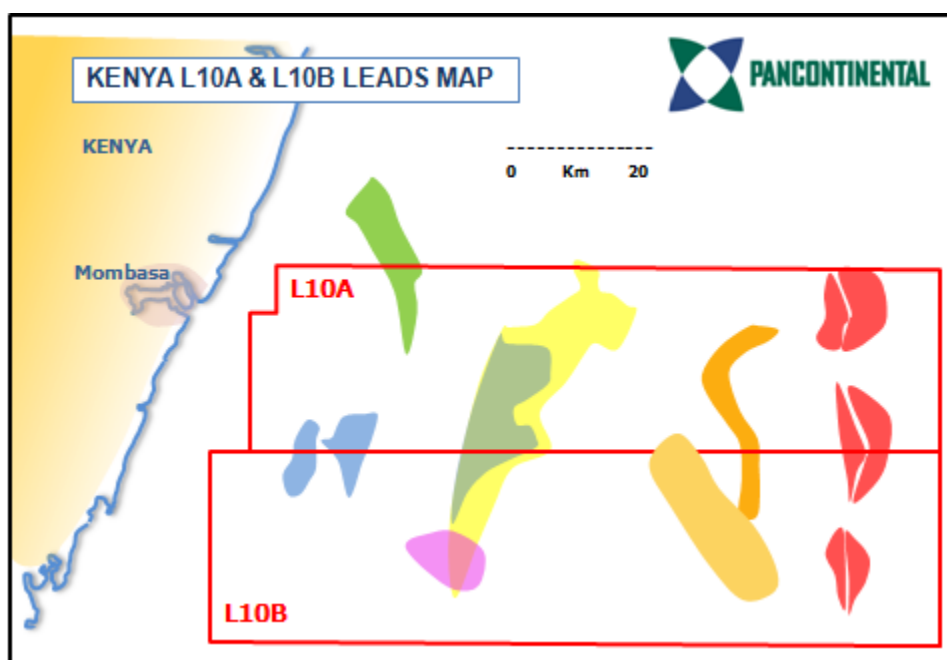
L10A and L10B have respective areas of 4,962.03 sq km and 5,585.35 sq km in water depths of 200 to 1,900m. The Joint Venture includes operator BG Group, Premier Oil and Cove Energy; Pancontinental holds a 15% interest in each licence. The licences commenced on 17 August 2011.

The offshore East African margin, including Kenya, has become the focus of international interest for oil and gas through major discoveries offshore Tanzania and Mozambique.

An initial L10A & L10B review has identified more than ten strong “leads” for follow-up by the completed 3D and 2D seismic surveys.

The leads are geologically varied, with six “play types” identified. The leads have potential in different parts of the geological section, including Miocene reefs, a large Upper Jurassic “reef” and Cretaceous and Tertiary channel and turbidite sands.

Several of the leads have a similar character and are south of the giant Mbawa Prospect in L8 (Pancontinental 15%).



NAMIBIA OFFSHORE WALVIS BASIN EL 0037

Pancontinental Oil & Gas NL – 85%, Operator

Acquisition of Interest from Paragon

Pancontinental announced on 18 July that it had acquired 10% of Paragon Holdings (Pty) Ltd (“Paragon”) 15% interest 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% with Paragon holding 5%. Paragon’s 5% interest will be “free carried” until the commencement of the development of any discovery.

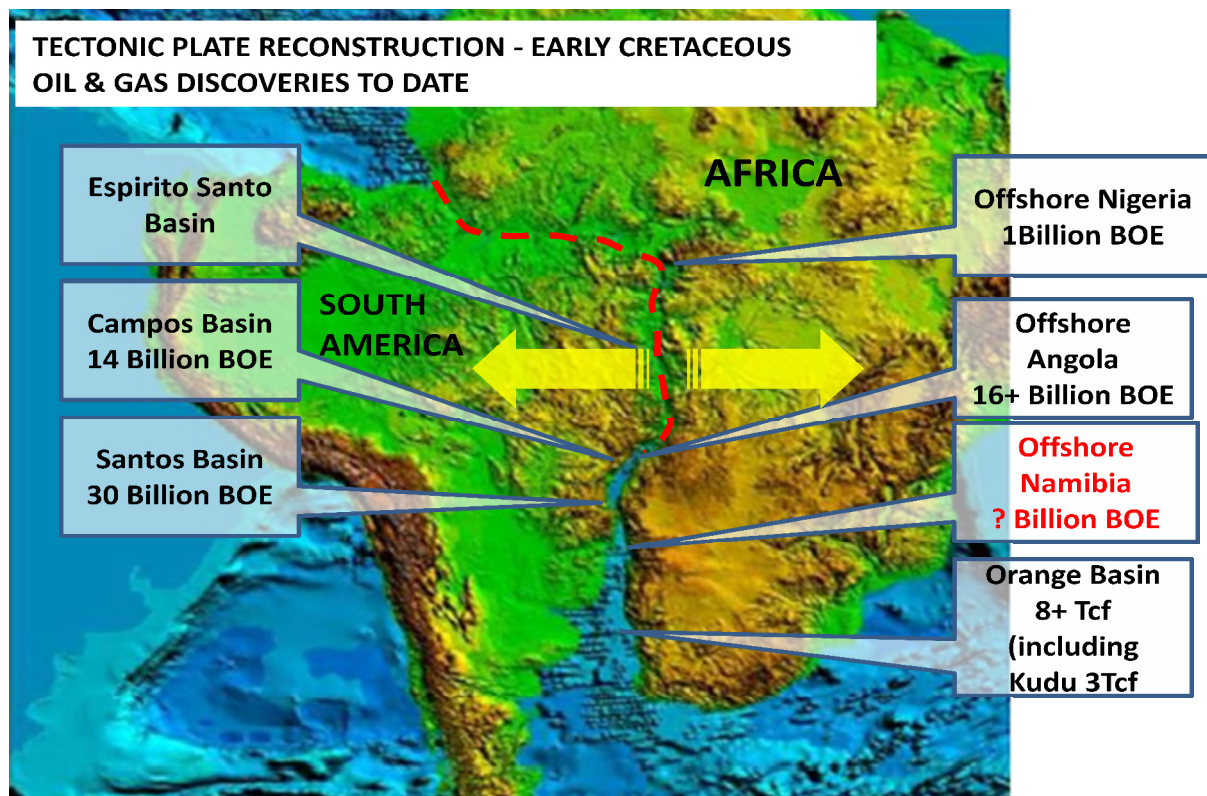
Petroleum Exploration Licence No. 0037 (“EL 0037”) has a commencement date of 28 June 2011. EL 0037 covers approximately 17,295 sq km in the Walvis Basin offshore northern Namibia.

Prospectivity offshore Namibia

At least six wells are planned offshore Namibia over the next 12 to 18 months. New techniques such as 3D seismic are enhancing exploration in a way never seen before.

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

Offshore Namibia has the potential to hold very large oil and gas reserves and it 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 in recent years 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.

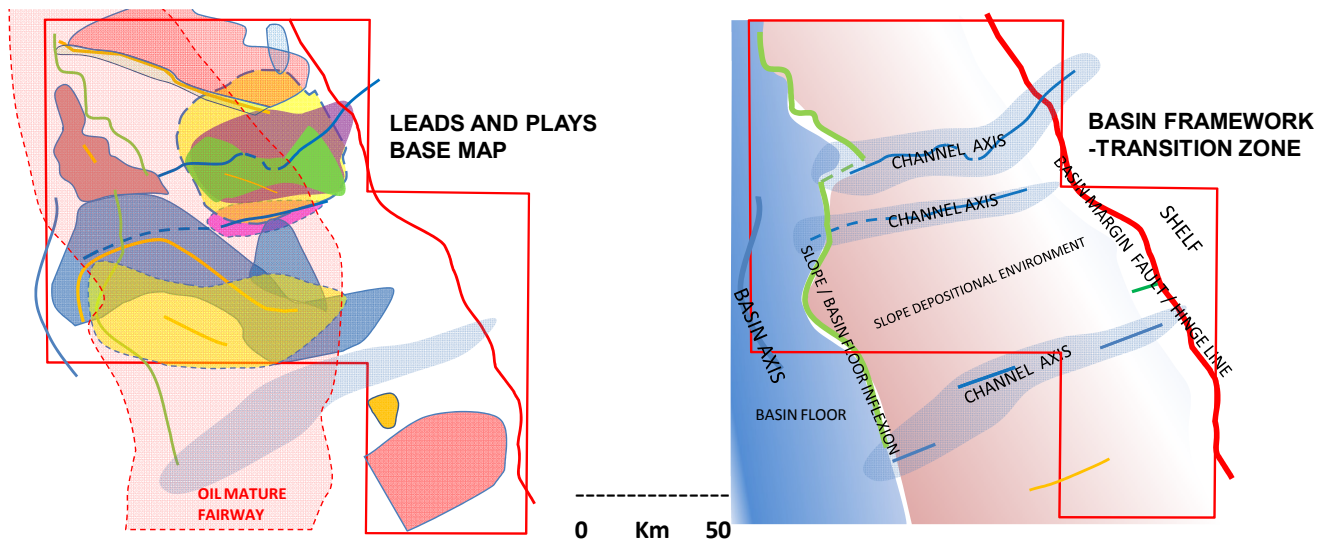
Pancontinental is exploring ponded basin floor turbidites, slope fans and channels seen on existing 2D seismic. These targets are associated with the restricted graben trough that is interpreted to hold the rich and mature oil source rocks seen in regional wells.

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.

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; 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

Most recently, Repsol SA farmed-in for drilling in the EL 0010 area, held by Tower and Arcadia and adjacent to Pancontinental's EL 0037 area.

Under a recently announced farm-in by BP to Serica relating to a licence area south of EL 0037, BP will earn a 30% interest by funding 4,000 sq km of 3D seismic and thereafter have an option to earn a further 40% by drilling one well.

A number of the joint ventures offshore Namibia are now entering drilling phases. At least six wells will be drilled in the next 12 to 18 months 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.

The Tapir North well was drilled recently by UK-listed Chariot but this proved to be non-commercial. Chariot will shortly commence a second well and it is understood, will return to another prospect in the Tapir North area later in the year.

Offshore Namibia is recognised as the plate tectonic conjugate of offshore Brazil, where numerous world-class oil discoveries have been made in recent years. This geological aspect is now attracting major international attention to oil and gas exploration opportunities offshore Namibia.

MALTA OFFSHORE AREA 5; AREA 4, BLOCK 3

***Pancontinental Oil & Gas NL - 80%,
Operator***

Pancontinental is in dispute with the Government of Malta regarding the licence.

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.

NEW VENTURES

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

CORPORATE

Pancontinental is well funded with a cash position of \$47.7 million as at 30 June 2012.

Post 30 June 2012, Pancontinental has also resolved to raise up to \$4.43 million by placing the shortfall shares from the recently announced share purchase plan (see details below).

Capital Raising of A\$50 million

On 19 April 2012, Pancontinental announced that it had resolved to raise up to \$50 million to fund the ongoing exploration programmes over Kenyan Blocks L10A & L10B, further seismic work over Kenya Block L8, a portion of its share of costs of the upcoming L8 Mbawa well, seismic work over Kenya Block L6, seismic work over Namibia EL 0037 and for business development and general working capital purposes.

Funds were raised through a \$45 million placement of 257.1 million shares at an issue price of 17.5 cents per share to sophisticated and professional investors ("the Placement") and through a share purchase plan ("SPP") to existing shareholders, also at 17.5 cents per share, which also raised approximately \$570,000.

As announced post the June Quarter (see ASX announcement dated 31 July 2012), the Company has also resolved to place the shortfall from the recent share purchase plan by issuing up to 25.3 million shares at an issue price of 17.5 cents each to raise up to approximately \$4.43 million. The placement of the SPP shortfall will be made to sophisticated and professional investors and settlement is expected to occur on Thursday, 9 August 2012. The placement of the SPP shortfall will be issued pursuant to the Company's 15% capacity under ASX Listing Rule 7.1.

Pancontinental's recent capital raising has allowed the company to retain significant equity in its various projects, particularly Kenya and offshore Namibia.

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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.