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QUARTERLY ACTIVITIES REPORT
March 2011

HIGHLIGHTS

- **Kenya L8 - Tullow Oil farms-in to Pancontinental's interest and Apache Corporation farms-in to Origin Energy's interest**
- **Kenya L8 - New 3D report confirms oil and gas potential of the Mbawa Prospect**
- **Kenya L10A & L10B - Pancontinental joined by BG Group, Premier Oil and Cove in negotiating new offshore licences**
- **Namibia - Joint venture agreement completed for new 15,000 sq km offshore area**
- **Africa - Pancontinental and Jacka Resources conclude strategic agreement for new ventures**
- **Kenya L6 - Focus shifting to offshore prospects and leads. Farminee sought for 3D seismic and drilling**

INTERNATIONAL PROJECTS

KENYA

OFFSHORE BLOCK L8

Pancontinental Oil & Gas NL – 25% reducing to 15%

Tullow and Apache farmins
On 7 March Pancontinental announced the signing of an agreement with Tullow Kenya B.V. a wholly owned subsidiary of Tullow Oil plc ("Tullow") for Tullow to farmin to a 10% interest in the licence over offshore Kenya Block L8.

Tullow will earn a 10% interest in the Production Sharing Contract for L8 plus an option on a further 5% by paying US$ 1 million to Pancontinental for reimbursement of past costs, subject to audit, and also by funding the future work programme on its own behalf and up to an expenditure "cap" of US$ 9 million attributable to Pancontinental's retained 15%.

Pancontinental will retain a 15% interest in L8, from which Tullow will then have an option to earn a further 5%. The option to earn a further 5% interest from Pancontinental is subject to Tullow funding any second well to a second agreed "cap" of US$ 6 million in respect of Pancontinental's share of well costs. If Tullow does not exercise the option, each of the two parties will fund its own direct share of the second well.

Based on current budgets, the initial expenditures by Tullow will see Pancontinental "free carried" through a major portion of the L8 work programme that includes drilling on the giant Mbawa Prospect.

The Tullow farmin follows another farmout transaction by the licence operator Origin Energy Limited and the US major Apache Corporation announced on 16 February. Apache is planned to take over from Origin as L8 operator.

While both the Apache and Tullow transactions are subject to certain conditions and approvals, it is expected that both transactions will be fully completed.

Subject to all necessary approvals and satisfaction of conditions in respect of the Tullow and Apache farmins, the Kenya L8 consortium consists of**-**

Apache Corporation	50%
Origin Energy Kenya Pty Ltd*	25%
Pancontinental Oil & Gas NL & Afrex Limited **	**15%**
Tullow Kenya B.V. ***	10%

* Wholly owned subsidiary of Origin Energy Limited

** Wholly owned subsidiary of Pancontinental.

*** Wholly owned subsidiary of Tullow Oil plc. Tullow is one of the largest leading European independent oil and gas exploration and production companies with a market capitalisation of about GBP 12 billion (A$ 19 billion).

In 2010 Tullow had average production of 58,100 Boepd. It has exploration and production interests in over 95 licences in 23 countries and in 2010 it achieved an 83% Exploration and Appraisal success rate.

Tullow has a strong African focus, attaining the first oil delivery in Ghana from the Jubilee field in November 2010 and the company continues development of its significant oil discoveries in Uganda.

Mbawa Prospect oil and gas potential –new report

L8 Operator Origin Energy Limited ("Origin") has provided the L8 Joint Venture with a first stage technical report on the evaluation of the Mbawa structure based upon Origin's interpretation of the Mbawa 3D seismic survey data acquired in 2009. This report stresses that the interpretation contained within it is based upon pre-stack time migration (PSTM) processing only and does not include interpretation results from a subsequent pre-stack depth migration (PSDM) which was carried out because of the structural complexity revealed by the PSTM data. The PSDM data was not available at the time of completion of Origin's report.

A number of offshore prospects with large potential lie within Kenya Block L8, with the Mbawa Prospect being the largest mapped to date. Neighbouring Block L6 (Pancontinental 40%) also has significant potential in a number of prospects and leads.

While there is no direct evidence that the Mbawa Prospect contains any oil or gas until drilling has taken place, new volumetric estimates contained in the report indicate that, if filled to spill point, Mbawa at the **Tertiary- Cretaceous** level has an in-place and unrisked potential to contain-

(i) **up to 4.9 Billion Barrels of oil (P10) <u>plus</u>**
(ii) **a gas cap of 284 Billion Cubic Feet (P10)**

Both (i) and (ii) are subject to risks that include trap integrity and the fact that the offshore Lamu Basin petroleum system is unproven.

In addition to the Tertiary- Cretaceous potential, in the report the deeper **Top Jurassic** level is estimated to have an in place and unrisked potential to contain –

(iii) **up to 323 Million Barrels oil (P10) <u>or</u>**
(iv) **525 Billion Cubic Feet gas (P10)**

Both (iii) and (iv) 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.

While the Mbawa P10 potential is regarded as the maximum in-place and unrisked potential, corresponding P Mean potentials in place, subject to the same risks as those outlined above for the P10 estimates, are-

(v) **Tertiary / Cretaceous potential - 2 Billion Barrels (P Mean) oil <u>plus</u> a gas cap of 196 Bcf (P Mean)**
(vi) **Jurassic potential - 138 Million Barrels (P Mean) <u>or</u> 231 Bcf (P Mean)**

Other results from the report and based upon Pancontinental's interpretation of it are-

- The Mbawa Prospect is a large faulted anticline divided into a number of "compartments"
- Both Tertiary / Cretaceous and Jurassic closures contain several major culminations and a number of minor culminations
- At the Tertiary / Cretaceous level a major southern culmination contains a "flat spot" or "DHI" (Direct Hydrocarbon Indicator) consistent with a gas-oil or gas –water interface

Mbawa Drilling
Several of the major culminations on the overall Mbawa Prospect may be locations for drilling. Initial planning has been undertaken for drilling and further extensive planning is now required. It is also intended to conduct a peer review by the L8 Consortium of the Origin report referred to above and also to complete the interpretation of the PSDM data. The timing of drilling is subject to a number of factors including the completion of that review and that interpretation, equipment lead-times and the availability of a suitable drilling rig.

A drilling site will be determined in the course of joint venture discussions.

A Mbawa drilling date will be set after further planning by incoming operator Apache.

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

A number of recent oil and gas discoveries have been made elsewhere offshore East Africa, in geological circumstances similar to those in L8.

Seismic 3D data indicate that the giant Mbawa structure is intact and is very large at a number of prospective levels. “Flat spots” or “DHI’s” can be seen over the Prospect. Pancontinental’s interpretation is consistent with a gas column of about 100m overlying an oil column of 120m to 200m but these can only be validated by drilling.

Pancontinental interprets an extensive deep oil and gas generating “kitchen” near the Mbawa Prospect, extending to the north into area L6. Sea surface "slicks" interpreted from satellite data support the concept of oil generation, expulsion and migration from the kitchen area and Mbawa itself. As well as Mbawa, other prospects in L8 and neighbouring L6 also have high volumetric potential and are also associated with interpreted slicks.

ONSHORE / OFFSHORE BLOCK L6

Pancontinental Oil & Gas NL – 40%

The L6 licence area 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 one other 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 in 2011 and drilling in 2011 / 2012.

OFFSHORE BLOCKS L10A & L10B

Pancontinental Oil & Gas NL – 15%

On 23 February Pancontinental announced that, following an offer by the Kenyan Ministry of Energy, it was part of a consortium negotiating for new exploration and production licences over Blocks L10A and L10B offshore Kenya.

The offer is subject to the negotiation of Production Sharing Contracts (“PSCs”) for the two Blocks with the Ministry.

The consortium consists of **-**	L10A	L10B
BG Group plc*	40%	45%
Premier Oil Investments Limited**	20%	25%
Cove Energy plc***	25%	15%
Pancontinental Oil & Gas NL	**15%**	**15%**

***BG Group** is one of the 10 largest companies in the UK with a market capitalisation of around GBP 50 billion (A$ 80 billion). BG Group is a world leader in natural gas exploration and production, Liquefied Natural Gas (LNG) and gas transmission and distribution. BG Group produces around 650,000 Barrels of Oil Equivalent per Day.

****Premier Oil plc** is amongst the largest UK independent oil and gas companies with a market capitalisation of approximately US$ 3 billion (A$ 3 billion). Premier produces about 45,000 Barrels of Oil per Day and has reserves of more than 250 Million Barrels of Oil Equivalent.

*****Cove Energy plc** has a market capitalisation of approximately GBP 450 million (A$ 720 million). After admission to AIM in October 2009, Cove had success with the Windjammer gas discovery off Mozambique in February 2010 and then had more gas discoveries and an oil discovery in the next three wells in the same area. It also holds a minority interest in an extensive tract of deeper water acreage offshore Kenya with operator Anadarko.

Subject to the success of negotiations, the new areas will more than double Pancontinental's gross acreage offshore Kenya.

A "fast track" exploration programme has been proposed including 2D and 3D seismic surveying in the first phase and drilling in later phases.

The L10A and L10B Blocks have respective areas of 4,962.03 sq km and 5,585.35 sq km and water depths of 200 to 1,900m, which is within the reach of modern drilling and development technology.

The L10A and L10B offers have come about after earlier applications by Pancontinental. Subsequent to Pancontinental's original applications, Pancontinental joined BG Group and then a Premier and Cove consortium that had lodged separate applications.

Further negotiated details of the PSC's and details of planned exploration activities will be announced in due course.

Offshore East Africa has become an industry focus through recent major deepwater gas discoveries and an oil discovery offshore Tanzania and Mozambique. Further drilling is under way in these areas south of Kenya and more drilling rigs are being brought to the region.

MALTA

OFFSHORE AREA 5; AREA 4, BLOCK 3

Pancontinental Oil & Gas NL - 80%

During the quarter the Company was in communication with a branch of the Ministry of Resources and Rural Affairs in Malta. The Company is seeking a means of restarting exploration in the licence area as soon as possible.

Activities on the company's Malta areas have been suspended since September 2005 under force majeure provisions of the ESA due to border issues between Malta, Libya and Tunisia.

NAMIBIA

OFFSHORE WALVIS BASIN

Pancontinental Oil & Gas NL – 85%

Pancontinental has negotiated the details of a Petroleum Agreement and Exploration Licence with the Ministry of Mines and Energy of Namibia for a large offshore exploration area.

After the end of the Quarter, the Company successfully finalised the negotiation of a Joint Venture Agreement with Namibian participant Paragon Investment Holdings (Pty) Ltd (15%).

Pancontinental will now proceed with finalising the issuing of the Exploration Licence and Petroleum Agreement.

MOROCCO

MEDITERRANEE EST BLOCK (Application), OFFSHORE MOROCCO, MEDITERRANEAN SEA

Pancontinental Oil & Gas NL – 100% (diluting to 80%)

The Joint Venture is awaiting the formal issue of the Reconnaissance Licence by the Minister. There has been no progress since the last report.

AUSTRALIAN PROJECTS

EP 104 / R1 ONSHORE CANNING BASIN

Pancontinental Oil & Gas NL – 10%

Renewed testing of the Stokes Bay 1 well was carried out in November 2010 using a coiled tubing unit (CTU). Saline water was recovered and this is interpreted to be formation fluid. No oil or gas was recovered during the test.

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.

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.

Consideration is currently being given to the L15 work programme.

EP 424 OFFSHORE CARNARVON BASIN

Pancontinental Oil & Gas NL – 38.462%

The Joint Venture continues to seek an extension of its interest in the Baniyas Prospect into neighbouring acreage.

Baniyas lies in an established oil producing trend adjacent to the Roller, Saladin and Skate oil fields. The crest of the Baniyas feature has anomalous seismic amplitudes, consistent with the presence of gas-over-oil or gas-over-water, although it is possible that other factors may be responsible for the anomaly.

A study has been undertaken to review the prospectivity of the Baniyas Prospect and results are expected to be announced in the forthcoming quarter.

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.

Pancontinental increased its working interest from 25% to 38.462% in March 2010.

The joint venture commenced consideration of the onshore leads and prosects with the aim of remapping these and considering a new seismic programme to “firm up” one or more prospects for drilling.

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

(i) After the end of the Quarter, Pancontinental and Jacka Resources Ltd ("Jacka") entered into a Joint Bidding Agreement whereby the two companies will cooperate in evaluating and applying for petroleum acreage in certain areas onshore East Africa.

The technical adviser and Directors of Jacka have extensive experience in Uganda, having been closely involved with Hardman Resources in the first Production Sharing Agreement over Block 2 in the Albertine Graben signed in 1997 and the subsequent first oil discovery in Uganda by Hardman, before the takeover of Hardman by Tullow in 2007.

The Pancontinental - Jacka agreement targets the onshore East African Rift System. The oil potential of the East African rift basins has been clearly demonstrated in the Albertine Graben in Uganda, where Tullow Oil reports that 1.5 billion barrels of P50 oil resources have been discovered and 15 billion barrels of P50 prospective oil resources remain.

Pancontinental has studied the potential of the East African Rift and has identified a number of priority areas that have "play" types proven to be successful elsewhere in the rift. Pancontinental and Jacka will pool their resources, experience and abilities to develop these opportunities. The companies aim to acquire exploration areas and undertake exploration programmes to unlock the potential of this increasingly attractive region.

(ii) Pancontinental continued to examine a number of new exploration opportunities in Africa.

CORPORATE

(i) Pancontinental received US$150,000 from BG Group in respect of past costs for Pancontinental's efforts to acquire Blocks L10A & I10B offshore southern Kenya (see L10A & L10B report above).

(ii) After the quarter's end, Pancontinental announced that Lodge Partners as lead managers placed 68,493,151 shares at $0.073 per share and raised $5 million before costs, pursuant to the Company's available placement facility. Funds raised by the placement will be used primarily to advance exploration activities in both offshore Kenya and Namibia as well as for working capital.

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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 25 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.