

Announcement to ASX

29 July, 2016

JUNE 2016 QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

QUARTERLY HIGHLIGHTS

- Completion of cornerstone investment, raising A\$3.6 million
- Acquisition of WA-481-P Exploration Permit
- Pilot Energy becomes largest net acreage holder in Perth Basin
- Independent expert BDO values Pilot Energy shares at between 0.38 cents and 0.88 cents
- RISC values exploration portfolio at up to c. A\$30 million
- Director appointments and management reorganisation
- Payment of balance of WA-507-P seismic Permit Award Fee
- EP480 work program variation approved by WADMP

Cornerstone Investment

As announced by the Company on 31 March 2016, Pilot Energy executed a Share Subscription Agreement with a group of new investors to raise A\$3,600,020 before costs.

The key terms of the SSA are as follows:

- An initial Tranche 1 investment of A\$800,000 to acquire 400,000,000 ordinary shares at 0.2 cents per share, representing a 34% premium to the Company's 30 day VWAP of 0.149 cents per share (as at 31 March 2016)
- Subject to shareholder approval, a further Tranche 2 investment of A\$2,800,020 to acquire 933,340,000 ordinary shares at 0.3 cents per share (Tranche 2), representing a 100% premium to the Company's 30 day VWAP (as at 31 March 2016)

Both Tranche 1 and Tranche 2 have now been completed, and the Company has implemented the following Board and management changes in order to position the Company for further growth:

- Mr Benson Wong has been appointed as Executive Director and Chief Financial Officer.
- Mr Wilson Xue has been appointed as a Non-Executive Director.
- Dr Xingjin Wang, also a member of the Subscriber group, has been engaged as an Advisor to the Board (Technical).
- Mr Conrad Todd and Mr Rory McGoldrick have stepped down as directors, but remain key members of the Pilot Energy team as Advisors to the Board (Technical and Commercial/Legal, respectively).

The Board is now comprised of Mr Gavin Harper (Chairman), Mr Iain Smith (Managing Director), Mr Benson Wong (Executive Director & Chief Financial Officer), and Mr Wilson Xue (Non-Executive Director).

Independent Expert's Valuation

In order to inform shareholders regarding the required shareholder approval for Tranche 2 of the cornerstone investment, an Independent Expert's Report was prepared by BDO Corporate Finance

(WA) Pty Ltd (**BDO**), in association with independent technical specialist RISC Operations Pty Ltd (**RISC**).

BDO assessed the value of a Pilot Energy share following the Transaction on a minority basis, as follows:

	Low Value Cents per share	Preferred Value Cents per share	High Value Cents per share
Value of Pilot Energy following completion of the Transaction on a minority basis	0.38	0.62	0.88

In its report BDO noted that different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In its assessment of the value of Pilot Energy shares BDO chose to employ Net Asset Value, on a going concern basis, as the primary valuation methodology, and instructed RISC to provide an independent market valuation of the Company’s exploration assets.

RISC determined that, on a portfolio basis, the range of values for the Company’s exploration assets is between A\$12.80 million and A\$29.96 million, with a midpoint value of A\$21.38 million.

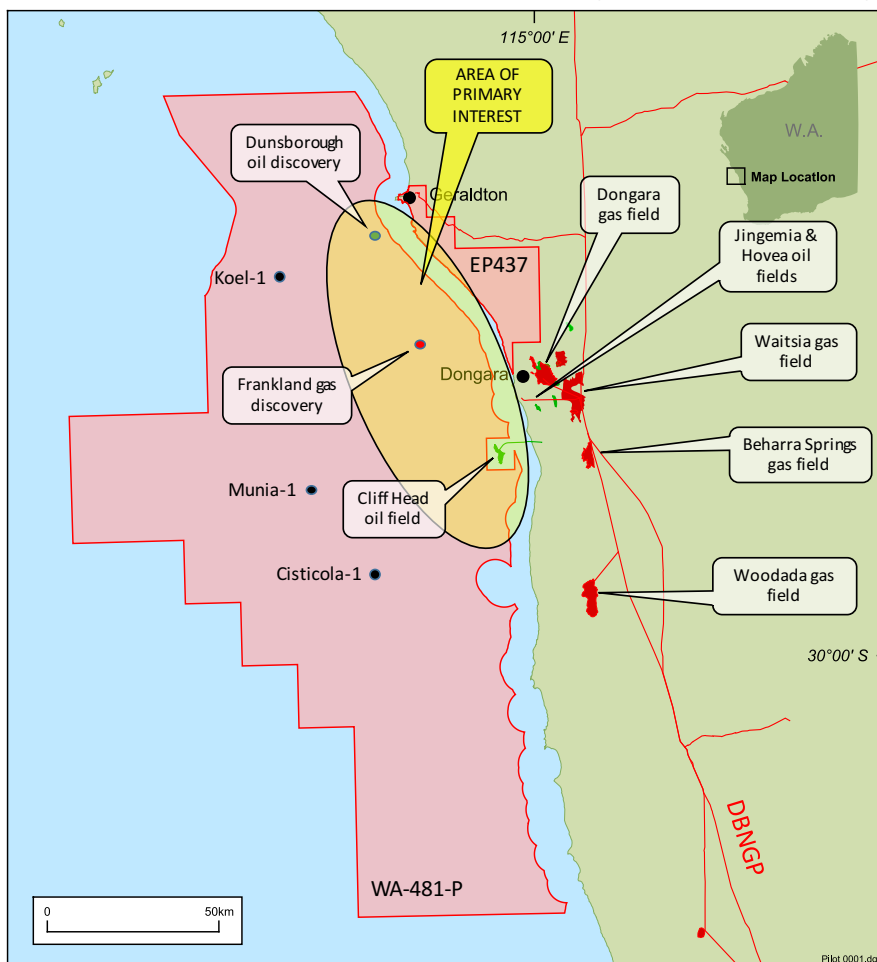
BDO’s full report, including the Independent Technical Specialist’s Report completed by RISC, is included within the Notice of Meeting as issued to shareholders on 23 May, 2016.

WA-481-P Acquisition

As announced on 27 July 2016, Pilot Energy has acquired the WA-481-P exploration permit, located in the offshore North Perth Basin, Western Australia. Under the terms of the agreement, Pilot Energy will be assigned the 100% interest in WA-481-P with a Net Profits Interest payable to the seller on future hydrocarbon production from within the permit. The Company will also be assigned the seller’s share of Petroleum Resource Rental Tax (PRRT) credits, substantially improving the economics of any future development.

The WA-481-P opportunity was originally identified in collaboration with Pilot Energy’s joint venture partner in the EP437 permit, Key Petroleum Ltd. Pursuant to a cooperation agreement with Pilot Energy, Key Petroleum has right to acquire a 40% interest on the same (pro rata) terms, and subject to regulatory approval.

Permit WA-481-P is located in shallow waters, to the west of the onshore Dongara, Beharra Springs and Waitsia gas fields, and the Jingemia, Hovea and Cliff Head oil fields. Pilot Energy’s onshore exploration permit EP437 lies approximately 10km to the east.



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WA-481-P is a very large block within shallow waters, that covers a large part (17,475 km²) of the offshore North Perth basin. Pilot Energy regards the size of the permit as being greater than the most prospective area in the onshore Perth basin, and the Company now holds some net 12,000 km² across

the Perth Basin; the largest net acreage holding of any company. The primary petroleum plays are oil and/or gas within the Dongara Sandstone and the Irwin River Coal Measures. Both oil and gas are proven within the permit, with the Frankland gas and the Dunsborough oil discoveries representing contingent resources.

Structurally, the permit contains the north-south trending Turtle Dove Ridge to the west, where three exploration wells have been drilled, all of which encountered oil and gas shows. The main hydrocarbon source “kitchen” extends through the centre of the block, with hydrocarbons thought to have migrated eastwards up to the Beagle Ridge in the east. This is where the Cliff Head, Frankland and Dunsborough fields are located. A previous Geoscience Australia study over the area highlights the regionally extensive source rocks, which have good to excellent potential for generating oil. While the majority of hydrocarbon resources in the Perth Basin have been discovered within Late Permian clastic sequences, recent Early Permian discoveries onshore have generated significant industry and investor interest in the area.

Existing 2D and 3D seismic data indicates the presence of a number of leads and Pilot Energy regards the north-eastern part of the permit as being highly prospective for future discoveries in the range of 5 to 20 MMbbl oil, or 50 to 100 Bcf gas. Any future discoveries might be combined with the existing discovered resources within the permit, to form a “string of pearls” style development utilising existing infrastructure, such as the Cliff Head and Dongara facilities.

The WA-481-P permit is nearing the end of its primary term, and subject to regulatory approval Pilot Energy anticipates formally entering the permit at the start of the secondary term, the first year of which (year to 19 August 2017) carries a work commitment to complete \$300,000 of geological and geophysical studies. The subsequent two years of the secondary term are discretionary, with each carrying an exploration well commitment.

Assignment of the permit interest to Pilot Energy (and subsequently Key Petroleum) is conditional upon the approval of the National Offshore Petroleum Titles Administrator (NOPTA), and the Company will make further announcements in due course regarding the technical merits of WA-481-P, and regulatory approval.

WA-507-P Exploration Permit (Operator, 80%)

During the quarter Pilot Energy completed payment of the final instalment of the Permit Award Fee related to the 3D seismic data license covering exploration permit WA-507-P and surrounds. The Company negotiated a US\$71,000 discount for payment six months earlier than contractually required, remitting the discounted sum of US\$841,500 to TGS-NOPEC Geophysical Company Pty Ltd (TGS).

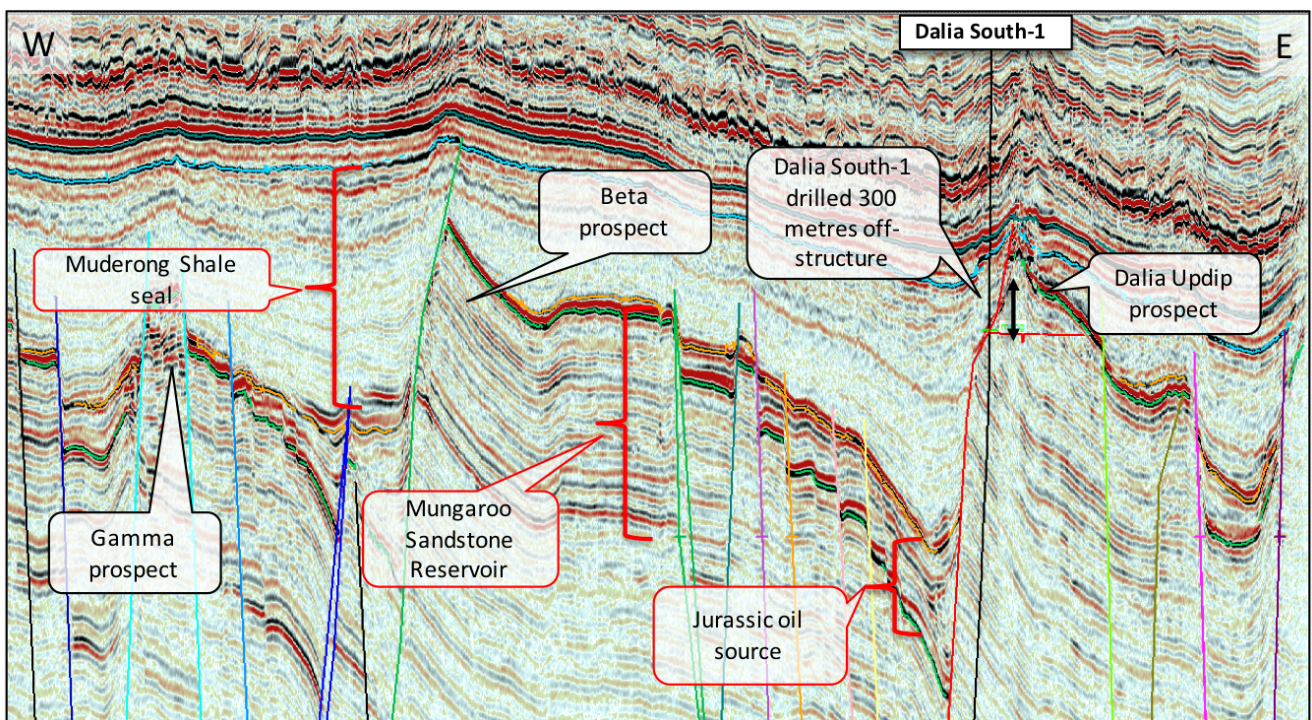
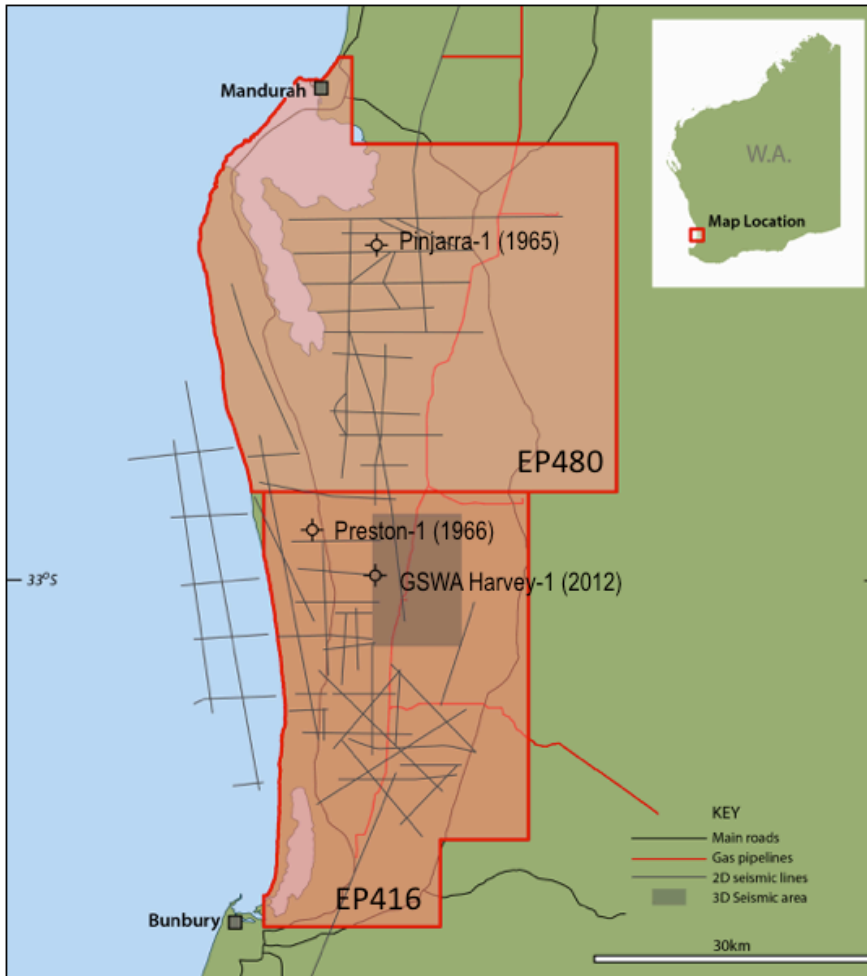


Figure: East-West 3D Seismic Example Across Three Main Prospects (image shown courtesy of TGS)

The 6,368 km² “Gnaraloo/Cazadores” multi-client dataset was licensed by Pilot Energy upon acquiring its interest in WA-507-P, and reveals the presence of three very large structures, prospective for oil and/or gas. Licensing of the data is the main work commitment associated with the three-year primary term of the permit, ending 16 November 2017. The secondary term comprises of geological and geophysical studies in years four and five, with one exploration well required to be drilled in year six.

With a “drill-or-drop” decision not required until November 2019, Pilot Energy has ample time to introduce a farmin partner to fund future exploration, and the Company is continuing discussions with a number of potential farminees, within what is currently a depressed farmout market. With the farmout market anticipated to improve on the back of an industry recovery, and industry interest focusing on open acreage surrounding WA-507-P (expected to be offered in the forthcoming Australian offshore licensing round), management is confident of the Company’s position in the permit.

EP416 & EP480 Exploration Permits (Operator, 60%)



EP416 and EP480 are contiguous onshore permits covering an area of 2,310 km², located in the southern part of the Perth Basin, a proven hydrocarbon province that has been the subject of significant industry interest; particularly since the Waitsia gas/condensate discovery by AWE Limited. The basin is generally prospective for gas (with some oil/condensate) and is well served by gas distribution infrastructure, with the Dampier to Bunbury gas pipeline running almost the full extent of the basin (and directly across EP416 and EP480). Demand exists for new sources of domestic gas within the area of EP416 and EP480, with industries such as minerals extraction and refining operating nearby.

The available 2D seismic data reveals the presence of the large (200km²) Leschenault gas prospect across the

permits, for which Pilot Energy estimates significant prospective gas resources as follows (refer to Company announcement of 2 September 2015):

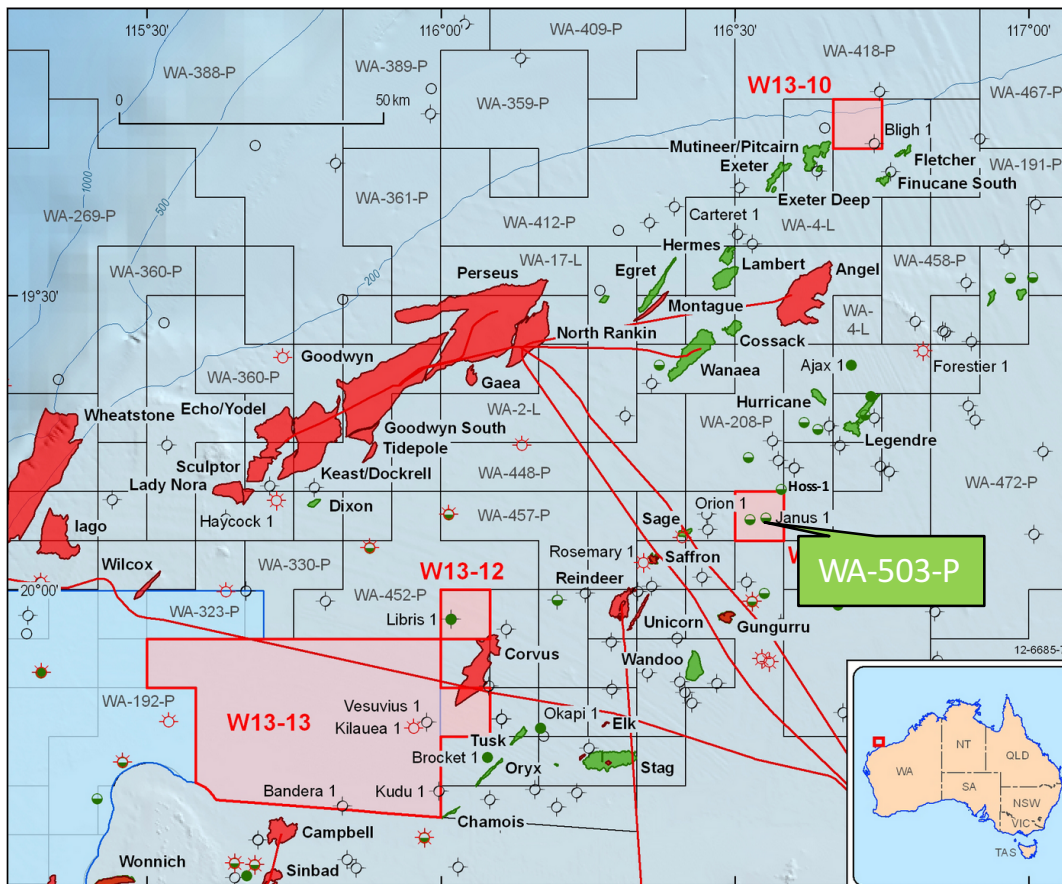
Target	Low Case (Bscf)	Best Case (Bscf)	High Case (Bscf)
Sue Sandstone	30	130	300
Leseur Sandstone	60	140	300

During the quarter, Pilot Energy received approval from the West Australian Department of Mines & Petroleum (WADMP) to vary the EP480 work program, such that the exploration well required in the year ending 31 March 2017 has been replaced by seismic reprocessing/interpretation and other studies, to the value of A\$250,000. The remaining exploration well commitment associated with the permit is required to be drilled by 31 March 2019.

Also during the quarter, the Pilot/Empire joint venture applied for renewal of the EP416 exploration permit for a further five-year term. The Company anticipates receiving confirmation from the WADMP shortly, and will provide further details as soon as possible.

Australia: WA-503-P Exploration Permit (Operator, 80%)

Block WA-503-P is located offshore Western Australia within the Dampier Sub-basin, inboard of the giant Northwest Shelf complex and on trend with numerous oil and gas discoveries; including the Legendre and Hurricane fields.



The shallow water depth across the block (maximum 70 metres) allows for drilling by lower cost “jack up” drilling rigs.

The primary exploration focus of WA-503-P is Lower Cretaceous to Upper Jurassic sandstone reservoirs within the oil rich Legendre Trend, situated along the eastern flank of the Lewis Trough. The decommissioned Legendre field is situated some 20 km to the northeast of the block, and produced over 40 MMbbl of oil from excellent quality sandstone reservoirs. The most recent discovery in the area, Hurricane, is believed to contain over 100 MMbbl of oil in place (plus associated gas and condensate) within a structural/stratigraphic combination trap.

Pilot Energy has until May 2017 to complete the work commitment associated with the permit's primary term, being acquisition of 80km² of new “Broadband” 3D seismic and completion of various geological and geophysical studies. The new data will cover the permit and surrounding area, and will refine seismic imaging of the three prospects identified by Pilot Energy thus far, in order to help determine the leading prospect for drilling in the permit's (discretionary) secondary term. These multi-target prospects have been independently assessed by Gaffney Cline & Associates to host prospective resources of up to 107 MMBbl oil (High Case, refer to Company announcement of 3 March 2016). The Company has an agreement in place with a seismic contractor to acquire the new data at a very favorable cost of US\$500,000. Timing of the survey is yet to be confirmed, and is subject to vessel availability.

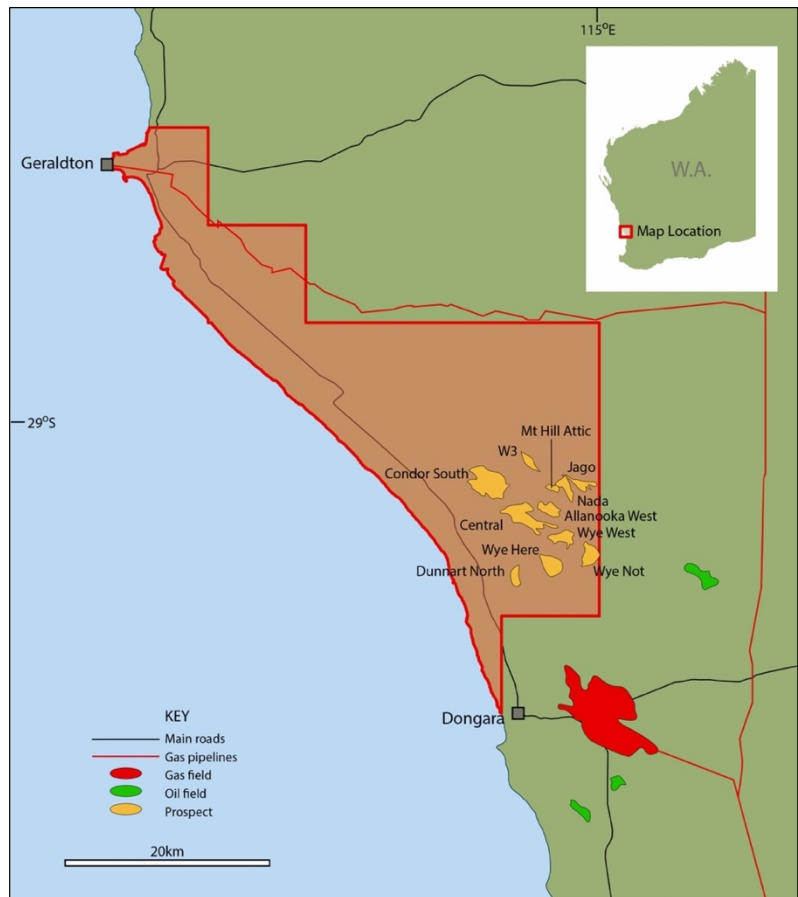
EP437 Exploration Permit (13.058%)

As announced on 20 April 2016, the WADMP approved the assignment of a 13.058% interest in exploration permit EP437 to Pilot Energy. EP437 is situated on the west of the northern onshore Perth Basin, between the towns of Geraldton and Dongara; some 10km to the north of the large Dongara gas field and Jingemia/Hovea oil fields, and 20km to the north of the Cliff Head oilfield. A number of wells have been drilled to date, the results of which confirm a working petroleum system within the permit; the Dunnart-1 and 2 wells recovered oil from the Lower Triassic Bookara sandstone, and the Wye-1 well tested gas from Bookara and Aranoo sands.

The primary prospects currently identified by the Joint Venture are Wye Knot, Becos and Conder South.

The Wye Knot prospect was drilled on the crest of the structure by the Wye-1 well in 1996, and tested gas from two reservoirs. The Bookara and the Arranoo sandstone reservoirs flowed 4.4MMscf/day and 2.5 MMscf/day respectively. Neither of these reservoirs exhibited a water leg, and both had good, live oil shows during drilling - suggesting that they may have been previously oil-filled, with the oil being displaced to a down-dip oil rim by subsequent gas migration.

While most of the EP437 prospects offer relatively modest prospective resources, they are economically attractive due to the low cost of drilling, and low cost of development in the event of discovery. The Operator is currently undertaking petrophysical interpretation, and once prospect ranking has been completed and a drilling target selected, the Joint Venture will progress well planning in order to bring the leading prospect to drill-ready status.



Financial: Reconciliation of Expenditure

Exploration and evaluation expenditure for the period amounted to \$1,507,000, the majority of which was the WA-507-P seismic data license fee as paid to TGS. Administration expenditure amounted to \$300,000. Cash as at 30 June 2016 was \$2,055,000.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 April 2016 to 30 June 2016.

ASX Listing Rule 5.3.3 Tenement Details

Tenement reference and location	Interest at beginning of quarter	Interest at end of quarter
WA-503-P Western Australia	80%	80%
WA-507-P Western Australia	80%	80%
EP416 & EP480 Western Australia	60%	60%
EP437 Western Australia	13.058%	13.058%

Enquiries

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/01, 01/06/10, 17/12/10

Name of entity

PILOT ENERGY LIMITED

ABN

86 115 229 984

Quarter ended ("current quarter")

30 JUNE 2016

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(1,507)	(2,215)
(b) development	-	-
(c) production	-	-
(d) administration	(300)	(791)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	4
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes received / (paid)	-	-
1.7 Other -	-	-
Net Operating Cash Flows	(1,804)	(3,002)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	(15)
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	694
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other - sale of exploration assets	-	-
Net investing cash flows	-	679
1.13 Total operating and investing cash flows (carried forward)	(1,804)	(2,323)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,804)	(2,323)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,600	3,600
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	22	52
1.17	Repayment of borrowings	(10)	(18)
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	(112)	(134)
	Net financing cash flows	3,500	3,500
	Net increase (decrease) in cash held	1,696	1,177
1.20	Cash at beginning of quarter/year to date	352	902
1.21	Exchange rate adjustments to item 1.20	7	(24)
1.22	Cash at end of quarter *	2,055	2,055

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	148
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.16 – final repayment of a loan advanced to a director
1.23 - includes salaries and consultancy fees paid to directors.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	150
4.2 Development	-
4.3 Production	-
4.4 Administration	312
Total	462

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,055	352
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,055	352

Appendix 5B
Mining exploration entity quarterly report

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased *	-	-	-

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference +securities <i>(description)</i>	Nil	N/A	N/A
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	N/A	N/A	N/A
7.3	+Ordinary securities **	2,938,816,834	2,938,816,834	N/A
7.4	Changes during quarter (a) Increases through issues * (b) Decreases through returns of capital, buy-backs	400,000,000 933,340,000	400,000,000 933,340,000	0.2 cents 0.3 cents
7.5	+Convertible debt securities <i>(description)</i>	Nil	N/A	N/A
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A	N/A

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

			<i>Exercise price</i>	<i>Expiry date</i>
7.7	Options <i>(description and conversion factor)</i>	140,000,000	-	0.4 cents
		45,000,000	-	0.2 cents
		10,000,000	-	3 cents
		12,500,000	-	12 cents
		10,083,334	-	12 cents
		25,500,069	-	6.75 cents
	Performance rights	45,000,000	-	30 June 2018
7.8	Issued during quarter	140,000,000	-	0.4 cents
7.9	Exercised during quarter	N/A	N/A	N/A
7.10	Expired or cancelled during quarter *	2,000,000	-	6 cents
		80,000,000	-	0.2 cents
7.11	Debentures <i>(totals only)</i>	Nil	N/A	
7.12	Unsecured notes <i>(totals only)</i>	Nil	N/A	

* 80,000,000 options issued to directors of the Company, exercisable by 30 June 2019 at 0.2 cents, were cancelled and replaced on 27 June 2016 with new terms and conditions.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Company Secretary

Date: 29 July 2016

Print name: David M McArthur

+ See chapter 19 for defined terms.

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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