

Announcement to ASX

31 October, 2016

## SEPTEMBER 2016 QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

### QUARTERLY HIGHLIGHTS

- Wye Knot oil prospect selected for drilling in EP437
- Renewal of EP416 exploration permit, and completion of EP416/480 Farmin Agreement
- RISC appointed to validate upgraded prospective resources in Leschenault gas prospect
- Assignment of interest in WA-481-P Approved by NOPTA
- Preliminary WA-481-P seismic interpretation confirms numerous leads

### EP416 & EP480 Exploration Permits (Operator, 60%)

As announced on 6 October 2016, the West Australian Department of Mines & Petroleum (WADMP) has granted a renewal of the EP416 exploration permit, located in the southern Perth Basin. The permit has been renewed for a five-year term, with the primary term work commitment (two years) comprising of geochemical surveying, advanced processing of the Falcon airborne geophysical survey data (acquired in 2015), and geological/geophysical studies. An optional exploration well is required in year four.

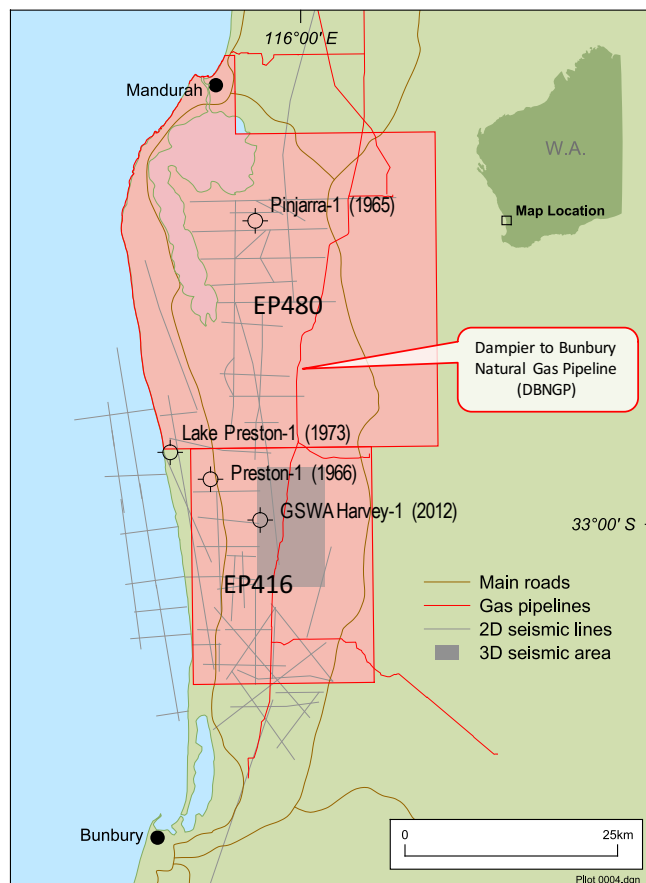
The Joint Venture has now applied to the WADMP to modify the current permit year's work program in EP480, in order to provide a consistent approach in both permits to de-risking the large Leschenault gas prospect, which straddles the two permits.

EP416 and EP480 cover a large area of the southern Perth Basin. This part of the basin is prospective for gas and 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).

2D seismic data reveals the presence of the Leschenault conventional gas prospect, and recent interpretation indicates that the prospective resources are significantly higher than previously announced. Pilot Energy has appointed independent consultancy RISC to verify the Company's upgraded estimate of prospective resources, with the results expected by mid November.

Existing 2D seismic data and airborne geophysical data confirm the presence of a very large structure across the permits, with up to 240 km<sup>2</sup> of structural closure mapped at two reservoir levels. The data also indicate the presence of large regional depocentres to the northeast and southeast of the structure, representing likely source "kitchens" for gas generated from the extensive and excellent quality Sue coal measures deposited across the region.

The Leschenault prospect is a "three-way dip" structure that relies on closure to the west by a



major bounding fault. The structure is well defined by 2D seismic data, and exhibits two structural culminations, both of which offer potential drilling locations for a vertical well to test the two conventional reservoir targets. The primary geological risk is one of cross-fault seal, i.e. whether the western bounding fault has sealing capacity to retain hydrocarbon gas migrating in to the structure.

In order to address this risk a geochemical survey is planned for early 2017, in order to determine whether gas anomalies are evident. The aim of the survey is to identify anomalies due to micro-seepage of hydrocarbon components from depth, that are broadly conformable to the Leschenault area of structural closure; indicating that one or both of the reservoir targets are gas-bearing. The survey will also focus on the location of the bounding fault, to determine whether macro-seepage of gas is occurring through the fault system, to surface.

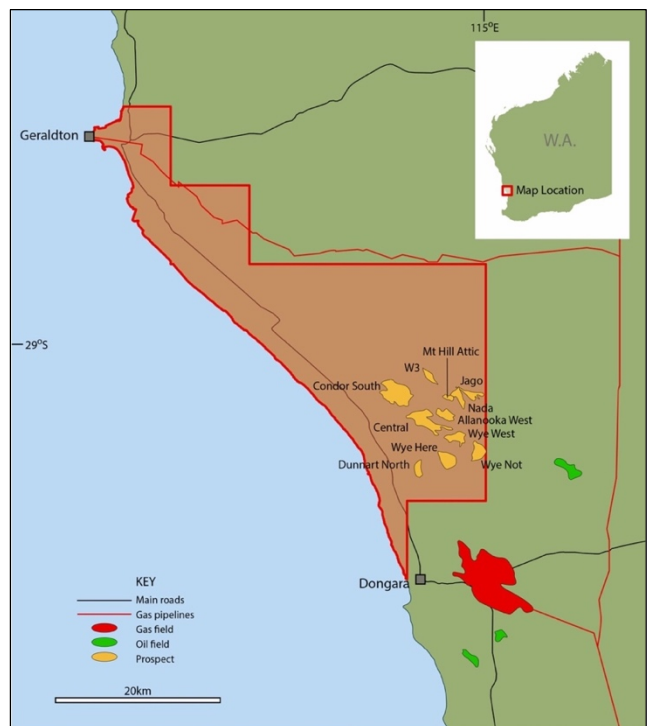
Pursuant to the Company's Farmin Agreement with Empire Oil & Gas NL dated 1 September 2015, the renewal of EP416 satisfies the remaining condition to that agreement, and Pilot Energy will pay Empire A\$150,000 as the final farmin installment.

### **EP437 Exploration Permit (13.058%)**

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.

Operator Key Petroleum has recently completed petrophysical interpretation and prospect ranking, and has presented budgets for long lead items and drilling of the Wye Knot prospect, located to the east of the permit. The precise timing of this Year 3 commitment well is subject to commercial discussions between the joint venture partners, and to discussion with various stakeholders, including landowners.

The Wye Knot oil prospect is located down-dip from the Wye-1 well (1996). As mentioned above, Wye-1 tested gas from two reservoirs, with the Bookara and the Arranoo sandstone reservoirs flowing 4.4MMscf/day and 2.5 MMscf/day respectively. Neither of these reservoirs exhibited a water leg, and both exhibited good, live oil shows during drilling. This suggests that the reservoirs may have originally been oil-filled at the Wye-1 location, with the oil being displaced to a down-dip oil rim by subsequent gas migration. This dual-charging model is in evidence elsewhere within the north Perth Basin, including at the nearby Dongara gas field.



The Wye Knot-1 well provides the Company with exposure to a low cost, near term drilling opportunity, that offers substantial upside in the success case. Pilot Energy looks forward to providing further information on well timing and Wye Knot prospective resources, in due course.

### **WA-481-P (Operator, 60%)**

As announced on 5 September 2016, the National Offshore Petroleum Titles Administrator (NOPTA) approved the transfer of title in exploration permit WA-481-P to Pilot Energy. Joint Venture partner, Key Petroleum exercised its option to acquire 40% of the permit, and the assignment of that interest has now been approved by NOPTA.

WA-481-P is located in shallow waters of the north Perth Basin, to the west of the onshore Dongara, Beharra Springs and Waitsia gas fields, and the Jingemia, Hovea and Cliff Head oil fields.

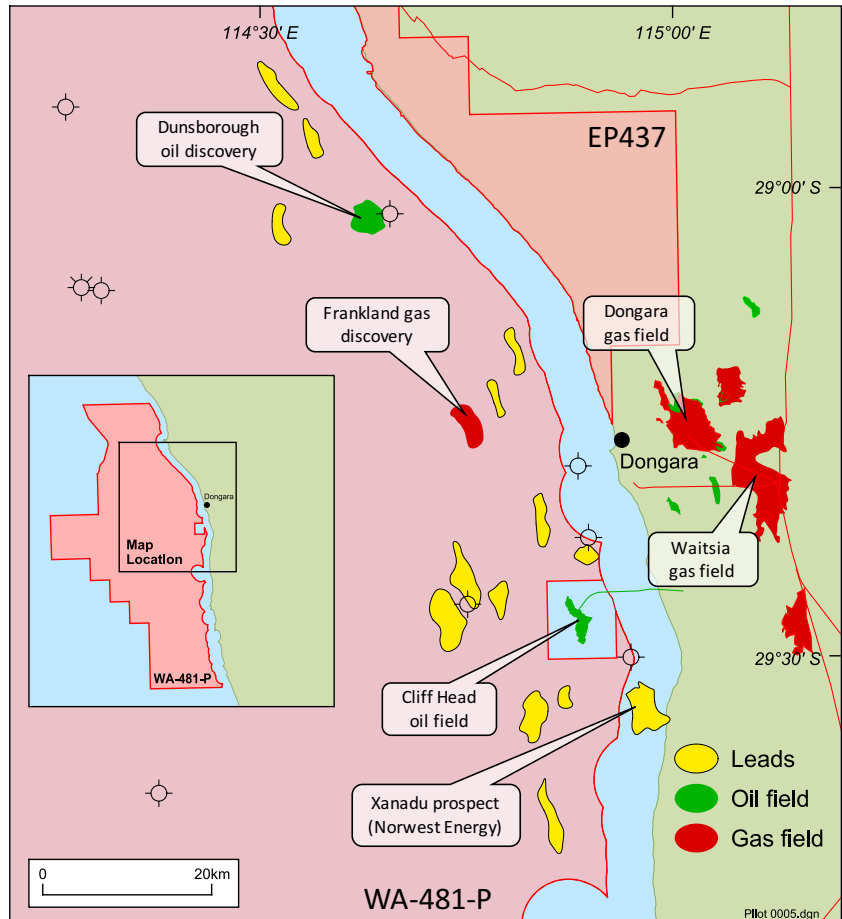
The permit area is very large (17,475 km<sup>2</sup>), and regarded by the Joint Venture as being greater than the most prospective area in the onshore north Perth basin.

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 were drilled by the previous titleholder, all of which encountered oil and gas shows. The main hydrocarbon source “kitchen” extends to the east of these wells, through the centre of the block, with hydrocarbons thought to have migrated eastwards up to the Beagle Ridge. 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.

Pilot Energy is undertaking a full evaluation of the substantial well and seismic dataset over the permit. Early deliverables include time mapping of the Dongara Sandstone reservoir, which has yet to be converted to depth. The time mapping indicates the presence of a number of leads in the area of the Cliff Head oilfield that have good potential to mature into attractive prospects. These will be a particular area of focus in the near future.

Furthermore, a number of leads are present adjacent and analogous to the Frankland and Dunsborough gas and oil discoveries. These could result in further discoveries, estimated in the range of 5-20 MMBbls oil or 50-100Bcf gas. Any future discoveries might be combined with the existing discovered resources within the permit to form a clustered development, possibly utilising existing infrastructure such as the Cliff Head and Dongara facilities.



Under the terms of the acquisition agreement, a 10% Net Profits Interest is payable to the previous titleholder on any future hydrocarbon production from within the permit. The Company will also be assigned the previous titleholder's share of Petroleum Resource Rental Tax (PRRT) credits, substantially improving the economics of any future development.

The Company will provide a more detailed prospectivity summary to the market by late November.

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

Block WA-507-P is located within the prolific Northern Carnarvon Basin, covering an area of 1,622 km<sup>2</sup> over the Exmouth Plateau. The block is covered by an existing, high quality 3D seismic dataset, which reveals the presence of a number of very large structures, ranging from 27 km<sup>2</sup> to 121 km<sup>2</sup> in area.

These structures have very significant prospective resources for gas and/or oil within the Triassic Mungaroo reservoir, which hosts much of the hydrocarbons discovered to date in the Northwest Shelf. The prospective resources have been independently assessed by Gaffney Cline & Associates, as per the Company announcements of 25 February and 20 October, 2015. The permit is located in the outboard part of the Mungaroo delta system, where the reservoir is believed to be thick and areally extensive, and the hydrocarbon source formations are believed to have been deposited in a more marine environment. This provides the potential for a working oil system within the permit.



Licensing of the 6,368 km<sup>2</sup> “Gnaraloo/Cazadores” multi-client 3D seismic dataset data is the main work commitment associated with the three-year primary term of the permit, ending 16 November 2017. Pilot Energy has paid the Permit Award Fee associated with the seismic license agreement, and with a “drill-or-drop” decision not required until November 2019, the Company has fulfilled its main firm commitments of the Primary Term.

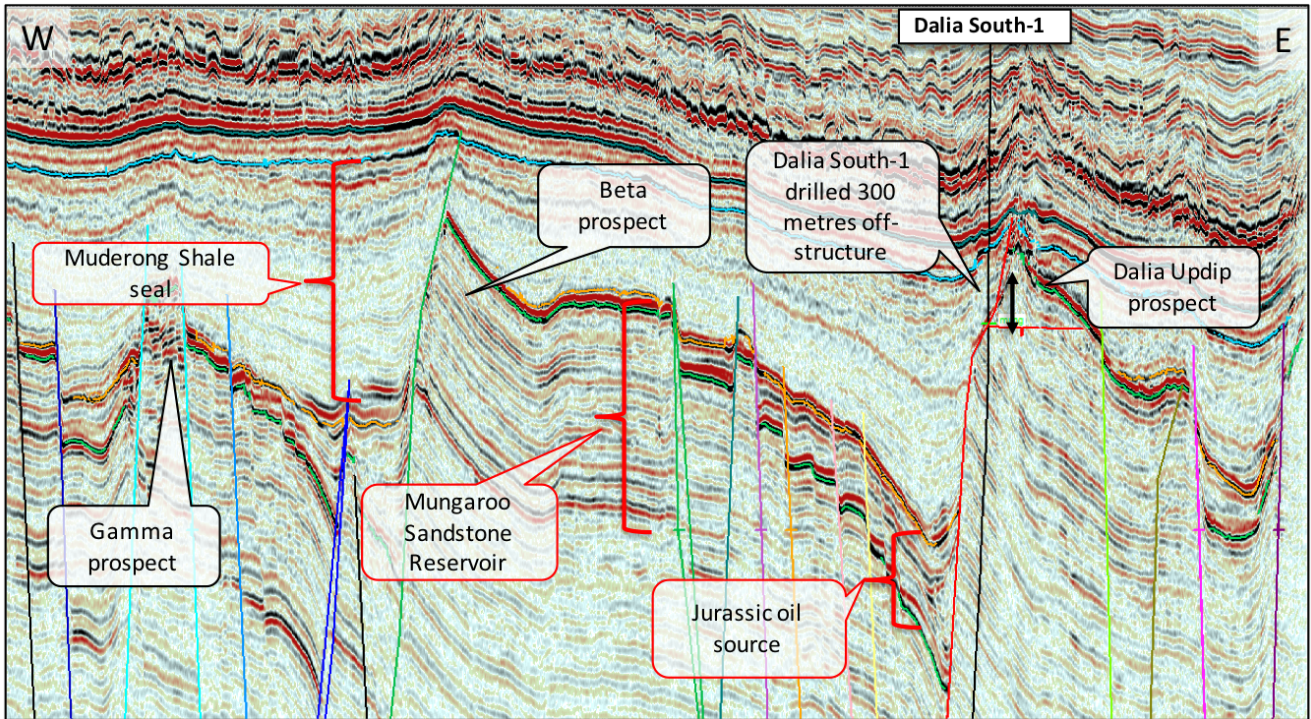


Figure: East-West 3D Seismic Example Across Three Main Prospects (image shown courtesy of TGS)

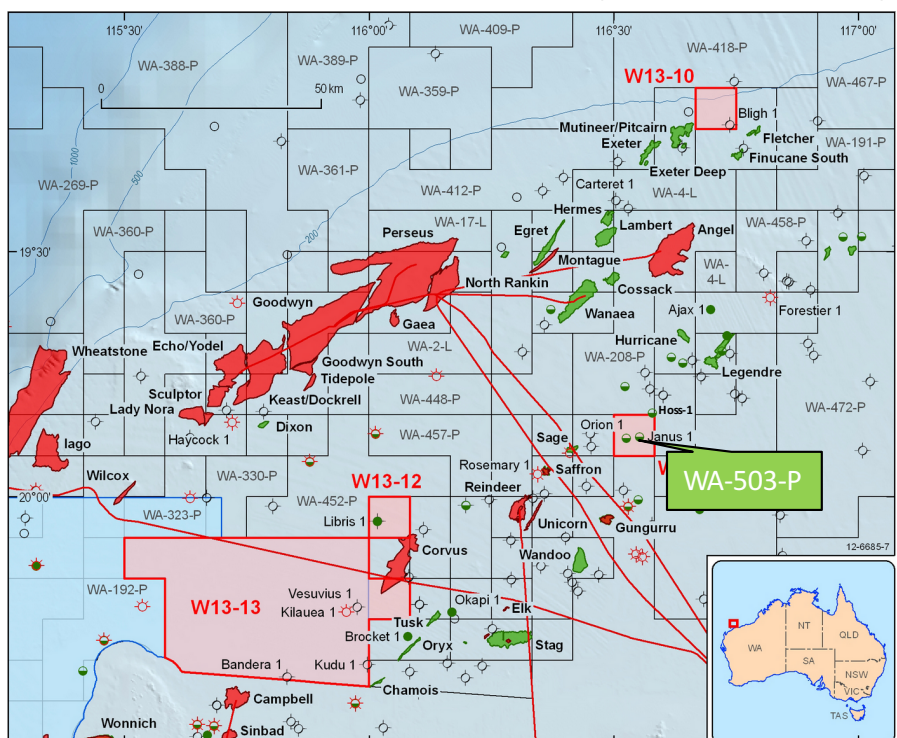
The Company is in continued discussions with a number of potential farminees. With the farmout market anticipated to improve on the back of an industry recovery, and industry interest focusing on open acreage surrounding WA-507-P (as recently offered in the current Australian offshore licensing round), management remains confident of the Company’s position in the permit.

### 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 current work commitment associated with the permit’s primary term is acquisition of 80km<sup>2</sup> 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.

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 remains subject to vessel availability. As the primary term expires in May 2017, the Company is in close communication with NOPTA regarding the potential delay in fulfilling the main primary term work commitment.

### **Financial: Reconciliation of Expenditure**

Exploration and evaluation expenditure for the period amounted to \$97,000, with administration expenditure of \$71,000. Cash as at 30 September 2016 was \$1,335,000.

The Company has registered an R&D project pertaining to WA-507-P, under the R&D Tax Incentive scheme, and anticipates receiving approximately \$600,000 in R&D "rebates" during the remainder of 2016.

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

### **ASX Listing Rule 5.3.3: Tenement Details**

| <b>Tenement reference and location</b> | <b>Interest at beginning of quarter</b> | <b>Interest at end of quarter</b> |
|--|---|-----------------------------------|
| WA-481-P<br>Western Australia          | 0%                                      | 60%                               |
| WA-503-P<br>Western Australia          | 80%                                     | 80%                               |
| WA-507-P<br>Western Australia          | 80%                                     | 80%                               |
| EP416 & EP480<br>Western Australia     | 60%                                     | 60%                               |
| EP437<br>Western Australia             | 13.058%                                 | 13.058%                           |

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### **Enquiries**

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## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

**Name of entity**

PILOT ENERGY LIMITED

**ABN**

86 115 229 984

**Quarter ended ("current quarter")**

30 SEPTEMBER 2016

| <b>Consolidated statement of cash flows</b>               | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(9 months)<br/>\$A'000</b> |
|---|------------------------------------|--|
| <b>1. Cash flows from operating activities</b>            |                                    |  |
| 1.1 Receipts from customers                               | -                                  | -  |
| 1.2 Payments for  |                                    |  |
| (a) exploration & evaluation                              | (97)                               | (2,312)  |
| (b) development   | -                                  | -  |
| (c) production  | -                                  | -  |
| (d) staff costs   | (117)                              | (347)  |
| (e) administration and corporate costs                    | (71)                               | (632)  |
| 1.3 Dividends received (see note 3)                       | -                                  | -  |
| 1.4 Interest received                                     | 3                                  | 7  |
| 1.5 Interest and other costs of finance paid              | (1)                                | (1)  |
| 1.6 Income taxes paid                                     | -                                  | -  |
| 1.7 Research and development refunds                      | -                                  | -  |
| 1.8 Other ( <i>see below</i> )                            | (161)                              | (161)  |
| <b>1.9 Net cash from / (used in) operating activities</b> | <b>(444)</b>                       | <b>(3,446)</b>                                 |

\$20,000 each to 4 directors' compensation for cancelled options; \$81,000 bonus to MD

|  |   |      |
|--|---|------|
| <b>2. Cash flows from investing activities</b> |   |      |
| 2.1 Payments to acquire:                       |   |      |
| (a) property, plant and equipment              | - | -    |
| (b) tenements (see item 10)                    | - | (15) |
| (c) investments                                | - | -    |
| (d) other non-current assets                   | - | -    |

| Consolidated statement of cash flows |   | Current quarter<br>\$A'000 | Year to date<br>(9 months)<br>\$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 2.2                                  | Proceeds from the disposal of:                        |                            |                                       |
|                                      | (a) property, plant and equipment                     | -                          | -                                     |
|                                      | (b) tenements (see item 10)                           | -                          | 694                                   |
|                                      | (c) investments                                       | -                          | -                                     |
|                                      | (d) other non-current assets                          | -                          | -                                     |
| 2.3                                  | Cash flows from loans to other entities               | -                          | -                                     |
| 2.4                                  | Dividends received (see note 3)                       | -                          | -                                     |
| 2.5                                  | Other (provide details if material)                   | -                          | -                                     |
| <b>2.6</b>                           | <b>Net cash from / (used in) investing activities</b> | <b>679</b>                 | <b>679</b>                            |

|             |   |              |              |
|-------------|---|--------------|--------------|
| <b>3.</b>   | <b>Cash flows from financing activities</b>                                 |              |              |
| 3.1         | Proceeds from issues of shares  | -            | 3,600        |
| 3.2         | Proceeds from issue of convertible notes                                    | -            | -            |
| 3.3         | Proceeds from exercise of share options                                     | -            | -            |
| 3.4         | Transaction costs related to issues of shares, convertible notes or options | (263)        | (397)        |
| 3.5         | Proceeds from borrowings  | -            | 52           |
| 3.6         | Repayment of borrowings   | (7)          | (25)         |
| 3.7         | Transaction costs related to loans and borrowings                           | -            | -            |
| 3.8         | Dividends paid  | -            | -            |
| 3.9         | Other (provide details if material)   | -            | -            |
| <b>3.10</b> | <b>Net cash from / (used in) financing activities</b>                       | <b>(270)</b> | <b>3,230</b> |

|            |  |              |              |
|------------|--|--------------|--------------|
| <b>4.</b>  | <b>Net increase / (decrease) in cash and cash equivalents for the period</b> |              |              |
| 4.1        | Cash and cash equivalents at beginning of period                             | 2,055        | 902          |
| 4.2        | Net cash from / (used in) operating activities (item 1.9 above)              | (444)        | (3,446)      |
| 4.3        | Net cash from / (used in) investing activities (item 2.6 above)              | -            | 679          |
| 4.4        | Net cash from / (used in) financing activities (item 3.10 above)             | (270)        | 3,230        |
| 4.5        | Effect of movement in exchange rates on cash held                            | (6)          | (30)         |
| <b>4.6</b> | <b>Cash and cash equivalents at end of period</b>                            | <b>1,335</b> | <b>1,335</b> |



| 5. <b>Reconciliation of cash and cash equivalents</b><br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Bank balances  | 1,335                      | 1,335                       |
| 5.2 Call deposits  | -                          | -                           |
| 5.3 Bank overdrafts  | -                          | -                           |
| 5.4 Other (provide details)  | -                          | -                           |
| <b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>   | <b>1,335</b>               | <b>1,335</b>                |

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

| Current quarter<br>\$A'000 |
|----------------------------|
| 44                         |
| -                          |

6.1 - Includes salaries and consultancy fees paid to directors, as well as superannuation paid on behalf of directors.

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

| Current quarter<br>\$A'000 |
|----------------------------|
| -                          |
| -                          |

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## Mining exploration entity and oil and gas exploration entity quarterly report

| <b>8. Financing facilities available</b><br><i>Add notes as necessary for an understanding of the position</i>   | <b>Total facility amount<br/>at quarter end<br/>\$A'000</b> | <b>Amount drawn at<br/>quarter end<br/>\$A'000</b> |
|--|---|--|
| 8.1 Loan facilities  | -   | -  |
| 8.2 Credit standby arrangements  | -   | -  |
| 8.3 Other (please specify)   | -   | -  |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. |   |  |

|  |
|--|
|  |
|--|

| <b>9. Estimated cash outflows for next quarter</b> | <b>\$A'000</b> |
|--|----------------|
| 9.1 Exploration and evaluation                     | 216            |
| 9.2 Development                                    | -              |
| 9.3 Production                                     | -              |
| 9.4 Staff costs                                    | 120            |
| 9.5 Administration and corporate costs             | 165            |
| 9.6 Other (provide details if material)            | -              |
| <b>9.7 Total estimated cash outflows</b>           | <b>501</b>     |

| <b>10. Changes in tenements (items 2.1(b) and 2.2(b) above)</b>                            | <b>Tenement reference and location</b> | <b>Nature of interest</b> | <b>Interest at beginning of quarter</b> | <b>Interest at end of quarter</b> |
|--|--|---------------------------|---|-----------------------------------|
| 10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced | N/A                                    |                           |   |                                   |
| 10.2 Interests in mining tenements and petroleum tenements acquired or increased           | N/A                                    |                           |   |                                   |

### **Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:   
Company Secretary

Date: 31 October 2016

Print name: David M McArthur

### **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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.