

Announcement to ASX

26 October, 2017

SEPTEMBER 2017 QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

QUARTERLY HIGHLIGHTS

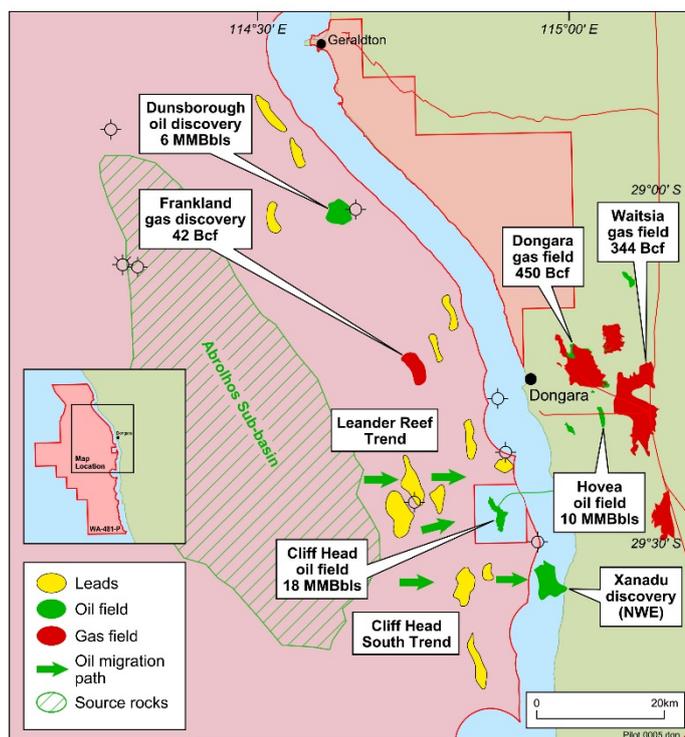
- Completion of \$720,000 capital raising at 15 cents per share (post-consolidation)
- WA-507-P Joint Venture sale process commenced
- Xanadu 1 discovery de-risks Leander Reef and Cliff Head South Trends in WA-481-P
- Planning for the onshore Wye Knot 1 well in EP437 continues
- EP-503-P seismic acquisition delayed until 2018

WA-481-P (Operator, 60%)

The Company noted with great interest the discovery of oil in reservoir quality sands of the Irwin River Coal Measures (IRCM) by the Xanadu-1 well in TO/15, as announced by Norwest Energy NL on 25 September.

The discovery is significant for Pilot Energy Limited and Key Petroleum Limited as it appears to validate the interpreted oil migration pathways from the known oil sources of the Kockatea Shale and the IRCM in the Abrolhos Sub-Basin in the central portion of WA-481-P. Oil from the source kitchen is interpreted to have migrated up-dip through the southern portion of WA-481-P into the Cliff Head and now into the Xanadu structure located in the adjacent permit to the east.

The Xanadu-1 success has reduced a key risk of migration for both the Cliff Head South and the Leander Reef oil trends. Together the Cliff Head South and Leander Reef Trends comprise over 80% of the currently assessed 247.8 MMbbl best case (148.7 MMbbl net Pilot Energy, 99.1 MMbbl net Key Petroleum) prospective resources for the permit.



The current exploration permit commitments for WA-481-P comprise seismic data reprocessing and geological/geophysical studies. As announced on 3 July 2017, these studies are designed to address the primary geological risks associated with each of the various prospects and leads, such that a prioritised inventory of drill-ready prospects can be finalised to facilitate joint venture participation in a drilling program.

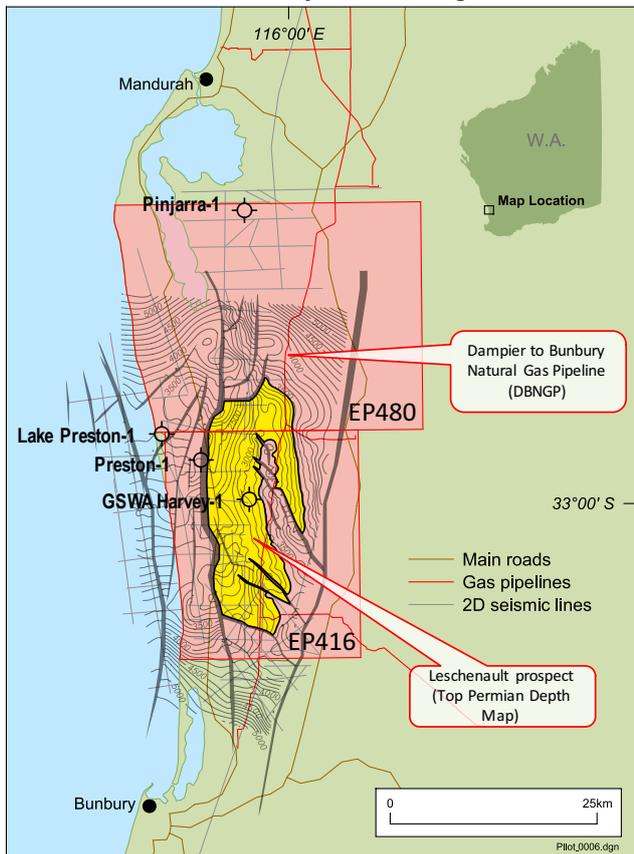
The Joint Venture is currently assessing quotes for seismic reprocessing (pre-stack depth migration, or PSDM) of the existing seismic data to improve the chance of success of future drilling activities. The reprocessing work is likely to take 6 months to complete and the Joint Venture are working cooperatively to ensure high-quality reprocessing and interpretation are undertaken in a timely fashion to support additional joint venture participation and drilling activities as soon as is practicable.

WA-481-P is located adjacent to existing oil and gas infrastructure, within shallow waters to the west of numerous oil and gas fields, including the offshore Cliff Head oil field and the onshore Waitsia gas discovery. The 17,475 km² permit covers a major portion of the offshore extension of the north Perth basin. The primary petroleum plays are for oil and/or gas within the Dongara Sandstone and the Irwin River Coal Measures (IRCM). Both oil and gas are proven within the permit, with the Frankland gas and the Dunsborough oil discoveries representing contingent resources of up to 59 Bcf gas and 9.8 MMbbls oil, respectively.

The permit is extensively covered by 2D and 3D seismic data, which confirms the presence of thirteen structural prospects in four distinct areas. Individual prospects offer potential for up to 78 MMbbls of oil, and three of the areas are substantially de-risked by prior discoveries on-block at Cliff Head, Dunsborough and Frankland.

EP416 & EP480 Exploration Permits (Operator, 60%)

During the Quarter, Pilot Energy continued to make preparations to conduct a geochemical survey over the Leschenault conventional gas prospect. Leschenault is a “three-way dip” feature that relies on closure to the west by a bounding fault. The well-defined structure has two structural culminations,



either of which is a potential drilling location for a vertical well to test the two conventional reservoir targets, being the Permian Sue Sandstone and the Triassic Lesueur Sandstone.

The main geological risk associated with Leschenault 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. To address this risk a non-invasive geochemical survey is planned over the coming months, with results expected in H1 2018. The aim of the survey is to identify anomalies due to micro-seepage of hydrocarbon gas components from depth, that are broadly conformable to the prospect’s area of structural closure. This would suggest that either or both reservoir targets are gas-bearing, de-risking the prospect for future drilling.

As announced on 7 November 2016, RISC completed an independent assessment of prospective resources for the two main reservoir target intervals at Leschenault, confirming the potential for very significant volumes of gas, as follows:

Reservoir	Gross (100%) Bcf		
	Low	Best	High
Lesueur Sandstone	150	435	970
Sue Sandstone	120	290	625
Total	270	725	1,595

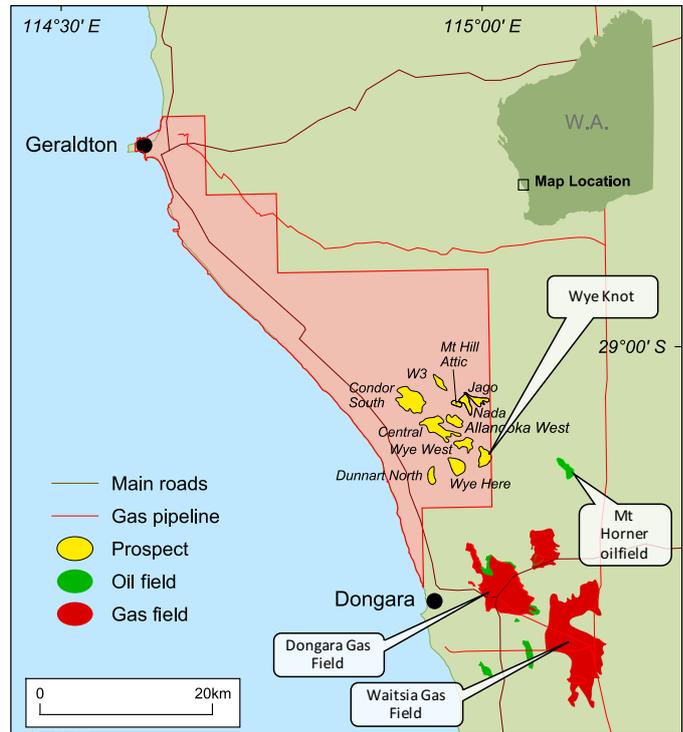
EP437 Exploration Permit (13.058%)

Preparations to drill the Wye Knot-1 exploration well in EP437 (Operator: Key Petroleum) continued, with landholder compensation discussions conducted during the quarter. A preferred drilling location for Wye Knot-1 has been identified, however the Operator has advised that the final timing remains subject to securing a suitable land access agreement.

The Wye Knot oil prospect is located down-dip from the Wye-1 gas discovery, drilled in 1996 at the crest of a four-way-dip-closed structure that benefits from additional closure via faulting to the northeast and northwest.

Wye-1 tested gas at commercial rates from two good quality reservoirs, with the Bookara and the Arranoo sandstone reservoirs flowing 4.4MMscf per day and 2.5 MMscf per day respectively. Neither of the reservoirs exhibited a water leg, and both exhibited live oil shows during drilling.

The presence of shows indicates that the reservoirs were originally oil-filled at the Wye-1 location, with the oil likely being displaced to a down-dip oil rim by subsequent gas migration in to the crest of the structure. This dual-charge model is evident elsewhere within the north Perth Basin, including at the nearby Dongara gas field, where the Dongara-8 well produced at an initial rate of 800 barrels of oil per day from an oil rim.



The Operator’s assessment of the prospective resources targeted by Wye Knot-1 is as follows:

Reservoir	Gross (100%) MMbbls			Net to Pilot (13%) MMbbls		
	Low	Best	High	Low	Best	High
Triassic (Bookara & Arranoo)	0.2	1.4	6.1	0.03	0.18	0.79

An oil discovery at Wye Knot-1 could be commercialised rapidly, and at low cost. Pilot Energy estimates the Net Present Value of a commercial discovery at between US\$15 and US\$20 per barrel, at current oil prices and depending on the size of the discovered resource. Importantly, success at Wye Knot-1 will de-risk other prospects within EP437, including Becos, Updip Wattle Grove, and Ganay.

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

As announced on 19 October 2017, the WA-507-P Joint Venture is preparing to market for sale an unencumbered 100% interest in the highly prospective block. The sale will allow Pilot to focus on its Perth Basin assets and comes at a time of renewed interest in the Exmouth Plateau, with the award of adjacent and nearby new permits to Chevron and Woodside Joint Ventures. Pilot’s partner, Black Swan (20%), has agreed to market the property on behalf of the Joint Venture.

Block WA-507-P is located within the prolific Northern Carnarvon Basin, covering an area of 1,622 km² over the Exmouth Plateau. The permit is covered by an existing, high quality 3D seismic dataset, which reveals the presence of three very large structures, ranging from 27 km² to 121 km² in area.

These prospects 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 (oil and/or gas) 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 km² “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 fulfilled the main work commitments associated with the Primary Term.

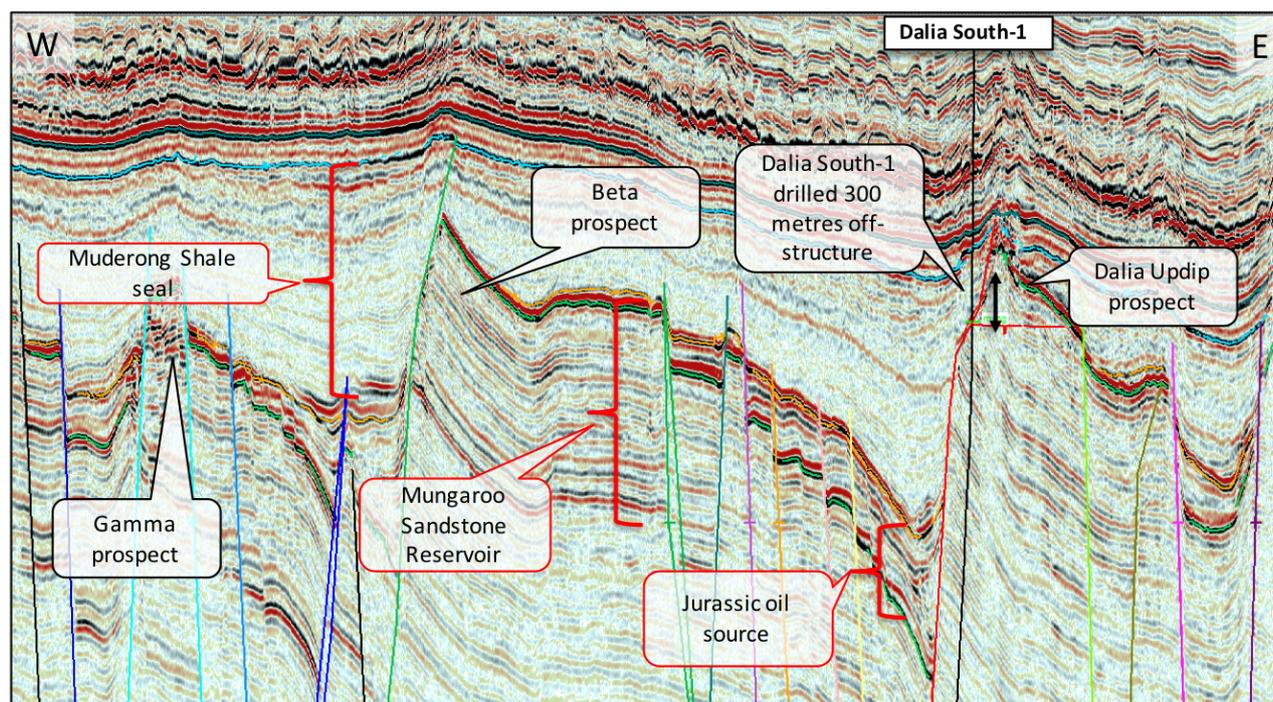


Figure: 3D Seismic Image Across Three Main WA-507-P Prospects (image shown courtesy of TGS Nopec)

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

As announced on 16 June 2017, NOPTA has approved an extension of the primary term of exploration permit WA-503-P, with a suspension of the associated work commitments until 12 May 2018.

An 80km² 3D broadband seismic survey was required to be completed before 12 May 2017, however this has not been possible due to the absence of a suitable seismic vessel within Australian waters. While Pilot Energy has a low-cost contract in place to complete the survey on a multi-client basis, the survey's small size does not justify mobilising a vessel from overseas.

Pilot Energy considered various alternative solutions, including acquiring the survey on a proprietary basis with other vessels that are currently located overseas, however the cost of mobilisation and demobilisation is prohibitive. The seismic contractor has advised that the NOPSEMA permit application process is ongoing and that acquisition in H1 2018 prior to the next whale migration season remains possible. On the basis of vessel availability NOPTA has granted the twelve-month extension to the permit's primary term, but a further extension may be required.

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.

Corporate

Capital Raising

As announced on 14 July 2017, Pilot Energy has received funds totaling \$720,000 pursuant to the Share Subscription Agreement with Giant Rainbow Investments Limited. The placement completed with the issue of 240 million ordinary shares (pre-consolidation), at a price of 15 cents per share (post-consolidation).

Management Update

During the period Mr Iain Smith resigned as Managing Director to pursue another opportunity. The Board thanks Iain for his valuable contribution to the Company over his three years of service, including two years as Managing Director.

As announced on 10 August 2017, the Board has appointed Dr. Xingjin Wang as Executive Director and Chief Technical Officer. Dr. Wang is a petroleum engineer with more than 25 years of international experience in petroleum exploration and production. He has extensive experience in the petroleum basins of Australia and previously held senior management positions with Arrow Energy. More recently, Xingjin has provided asset evaluation and petroleum engineering consulting services to a number of companies. He holds a PhD in Applied Geology from the University of New South Wales and is an Honorary Professor at the University of Queensland.

Independent Experts Valuation

On 14 June 2017, the Company announced the findings of an Independent Expert's Report that values Pilot Energy shares. The report was prepared by BDO Corporate Finance (WA) Pty Ltd (**BDO**) in association with independent technical specialist RISC Operations Pty Ltd (**RISC**).

BDO's valuation, post-consolidation, is as follows:

	Low Value per share	Preferred Value per share	High Value per share
Value of Pilot Energy share	21.5 cents	30.0 cents	39.5 cents

In its report 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\$16.5 million and A\$29.6million, with a midpoint value of A\$23.0 million.*

BDO's full report, including RISC's extensive Independent Technical Specialist Report may be referred to in the Notice of Meeting as released to the ASX on 13 June 2017.

Share Consolidation

Pursuant to approval obtained at the general meeting of shareholders held on 12 July 2017, the capital consolidation on a 1:50 basis was completed, with holding statements being dispatched to shareholders. Post the consolidation, the following securities are on issue:

63,576,514 fully paid ordinary shares

200,000 unlisted options exercisable at \$1.50 by 30 September 2017

900,000 unlisted options exercisable at \$0.10 by 30 September 2019

2,800,000 unlisted options exercisable at \$0.20 by 31 December 2019.

600,000 June 2018 performance rights convertible at between \$1.75 and \$4.00.

Financial

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 July 2017 to 30 September 2017.

ASX Listing Rule 5.3.3: Tenement Details

Tenement reference and location	Interest at beginning of quarter	Interest at end of quarter
WA-481-P Western Australia	60%	60%
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%

Competent Person Statement: This announcement contains information on conventional petroleum resources which is based on and fairly represents information and supporting documentation reviewed by Dr Xingjin Wang, a Petroleum Engineer with over 30 years experience and a Master in petroleum engineering from the University of New South Wales and a PhD in applied Geology from the University of New South Wales. Dr Wang is an active member of the SPE and PESA, and is qualified in accordance with ASX listing rule 5.1. He is an Executive Director of Pilot Energy Ltd, and has consented to the inclusion of this information in the form and context to which it appears.

Enquiries

Pilot Energy Limited: Lisa Dadswell, Company Secretary, email:

lisa.dadswell@boardroomlimited.com.au

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 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(171)	(379)
(b) development	-	-
(c) production	-	-
(d) staff costs	(319)	(771)
(e) administration and corporate costs	(226)	(873)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	4
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	807
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(716)	(1,212)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(10)
(b) tenements (see item 10)	-	(188)
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(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)	-	-
2.6	Net cash from / (used in) investing activities	-	(198)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	720	796
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	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(8)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	(76)
3.10	Net cash from / (used in) financing activities	720	712

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	630	1,335
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(716)	(1,212)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(198)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	720	712
4.5	Effect of movement in exchange rates on cash held	2	(1)
4.6	Cash and cash equivalents at end of period	636	636

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	636	630
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	636	630

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	274
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	

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	Current quarter \$A'000
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	

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
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.		

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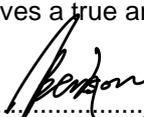
9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	7
9.2 Development	-
9.3 Production	-
9.4 Staff costs	131
9.5 Administration and corporate costs	128
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	266

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

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:


.....
(Director/Company secretary)Date: 26 Oct 2017
.....

Print name:

Benson Wong
.....**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.