

Announcement to ASX

21 January, 2016

DECEMBER 2015 QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

QUARTERLY HIGHLIGHTS

- Receipt of US\$500,000 from Alaskan settlement
- Very significant oil potential confirmed in WA-507-P
- Acquired interest in Perth Basin Exploration Permit EP437
- Deferral of seismic licensing cost for WA-507-P
- Commenced independent prospective resources assessment for WA-503-P
- Airborne geophysical survey data received for EP416 & EP480; supports prospectivity

Alaska

Further to the settlement with Royale Energy announced on 28 September, Pilot Energy received funds totaling US\$500,000 during the quarter. Pilot Energy has exited Alaska with no remaining liability or debt, and will now proceed to dissolve its US subsidiary Rampart Alaska LLC.

WA-507-P Exploration Permit

Pilot Energy holds an 80% working interest, as Operator, in the WA-507-P exploration permit, located offshore Western Australia. As announced by the Company on 20 October 2015, independent experts Gaffney Cline & Associates (GCA) completed an estimate of prospective oil resources for the three exploration leads identified by Pilot Energy, in addition to the significant gas potential previously assessed.

GCA's independent assessment confirms the potential for very significant oil discoveries within WA-507-P, as follows (quoted figures are on-block and recoverable):

| Lead | Low (MMBbl) | Best (MMBbl) | High (MMBbl) |
|--------------------|-------------|--------------|--------------|
| <i>Dalia Updip</i> | 250 | 764 | 1,743 |
| <i>Beta</i> | 151 | 381 | 931 |
| <i>Gamma</i> | 203 | 436 | 926 |

GCA previously estimated the prospective resources of the three leads for the gas case, as below (refer to ASX announcement dated 25 February 2015).

| Lead | Low (Bscf) | Best (Bscf) | High (Bscf) |
|--------------------|------------|-------------|-------------|
| <i>Dalia Updip</i> | 1,644 | 4,734 | 9,639 |
| <i>Beta</i> | 1,010 | 2,436 | 5,674 |
| <i>Gamma</i> | 1,376 | 2,877 | 5,786 |

Block WA-507-P covers an area of 1,622 km² over the Exmouth Plateau. The block is covered by a high quality 3D seismic dataset (licensed by Pilot Energy) which reveals three large exploration leads, ranging in area from 60 km² to 280 km².

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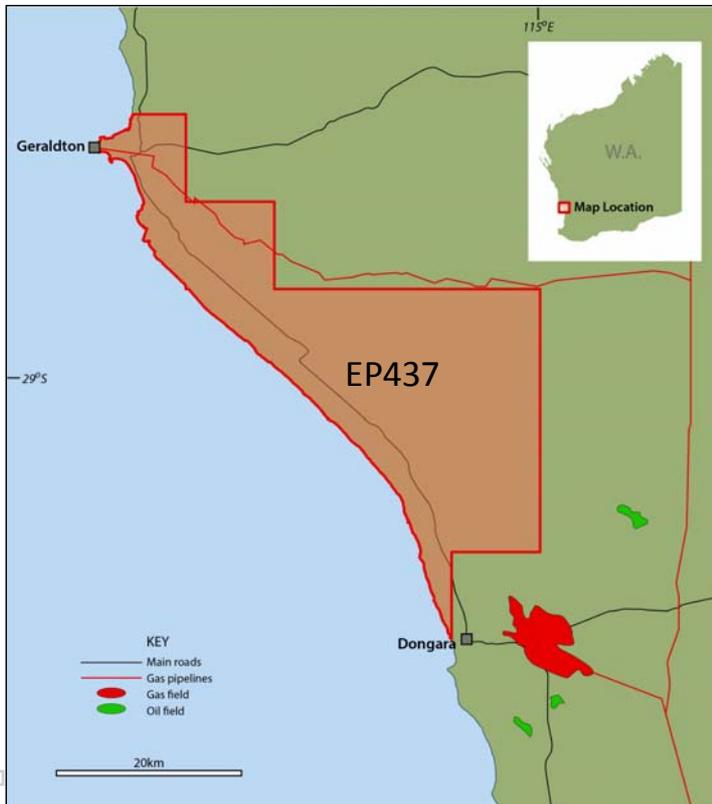
While WA-507-P is situated within a proven gas province, along trend from existing discoveries, regional well data and various studies support the case for an oil play within this part of the Exmouth Plateau. The Triassic Mungaroo source/reservoir interval in this area is believed to have been deposited in an outboard, marine depositional environment, which has positive implications for extensive deposition of oil-prone source rocks and good quality sandstone reservoirs.

The potential for an oil play in the Exmouth Plateau is attracting considerable industry interest, with the likes of Shell, Statoil and Eni/Octanex pursuing the oil play in their own permits surrounding WA-507-P. Pilot Energy has commenced marketing the project in order to attract a farmin partner, and has received early expressions of interest from a number of companies.

In the meantime, and as announced on 22 December 2015, Pilot Energy has paid seismic licensee TGS NOPEC (TGS) US\$250,000 in order to obtain an extension of the payment due date, and a discount on the balance of payment required to fulfil Pilot Energy's commitments to TGS in relation to the 3D seismic data licensed over WA-507-P and the surrounding area. The payment due date has been deferred from 18 February 2016 to 31 December 2016.

EP437 Acquisition

As announced on 4 November 2015, Pilot Energy executed an agreement with Caracal Exploration Pty Ltd (Caracal) to acquire Caracal's 13.058% interest in exploration permit EP437, located within the northern Perth Basin.



EP437 is situated on the west of the northern Perth Basin, between the towns of Geraldton and Dongara; some 10km to the north of the 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. Pilot Energy's preliminary interpretation of existing well and seismic data suggests the presence of a number of shallow-depth prospects at the Bookara and Arranoo sandstone levels, located along a terrace structure and structurally updip from the Dongara gas field. Three prospects have been identified to date, all located updip from the Dunnart-1 & 2 wells; both of which encountered good oil shows.

EP437 provides Pilot Energy with participation in low cost onshore oil and gas exploration, in a permit in which prospectivity has been identified within a working petroleum system and along trend

from existing discoveries. The proximity to infrastructure in this part of the Perth Basin enables even small oil discoveries to potentially be commercialised. Pilot Energy's strategy is typically to acquire large project working interests, as Operator. In the case of EP437, Pilot Energy regards the acquisition of a minority, non-operated position as justified, due to the fact it offers mid-term drilling opportunities, at low cost, and provides a basis for possible future expansion in the northern part of the Perth Basin.

EP437 is complementary to the Company's other exploration assets within Western Australia, so that Pilot Energy now holds a balanced portfolio of four conventional exploration projects offering the full range from low cost onshore gas and oil/gas exploration (EP416/480 and EP437 respectively), through high potential shallow water oil exploration (WA-503-P) to very high potential deep-water gas and oil exploration (WA-507-P).

The assignment of interest in EP437 to Pilot Energy is conditional upon the approval of the WA Dept.

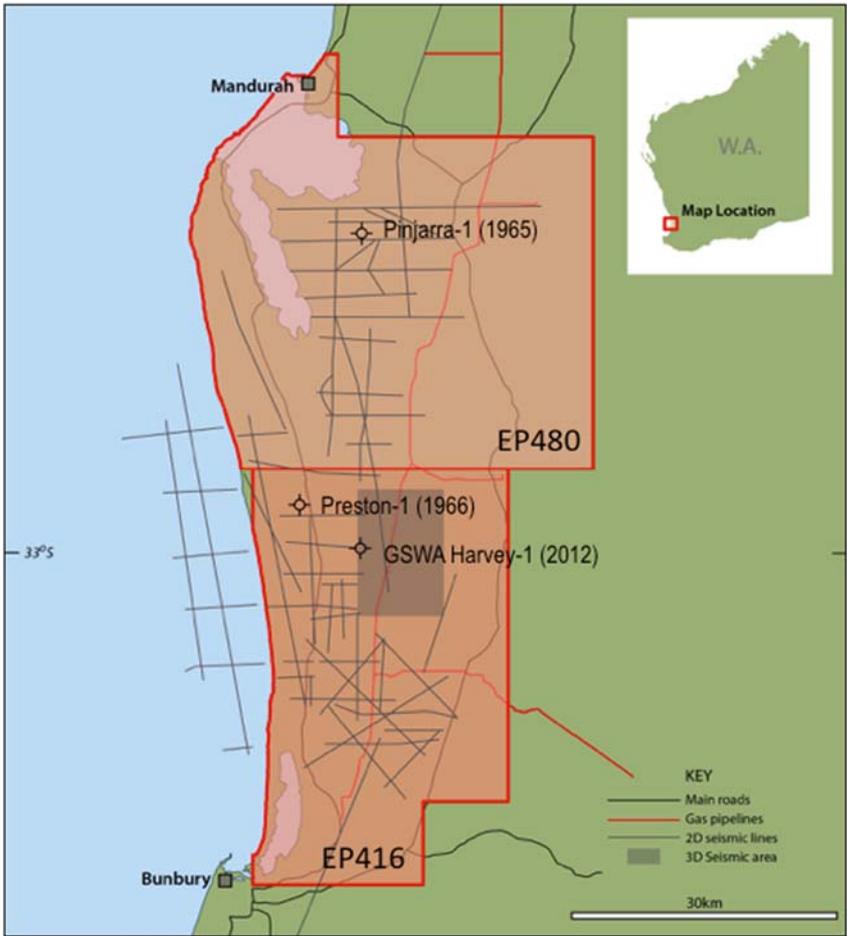
of Mines & Petroleum. Upon completion of the assignment, the joint venture interests in EP437 will be as follows:

| | |
|-------------------|--------------------|
| Key Petroleum Ltd | 43.471% (Operator) |
| Rey Resources Ltd | 43.471% |
| Pilot Energy Ltd | 13.058% |

The Company looks forward to providing a more detailed technical overview of EP437 in due course.

EP416 & EP480 Exploration Permits

Pending approval of the WA Dept. of Mines & Petroleum, Pilot Energy holds a 60% interest, as Operator in exploration permits EP416 and EP480, located in the southern Perth Basin.



The Perth Basin is 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.

EP416 and EP480 are contiguous onshore permits covering an area of 2,310 km², located in the southern part of the Perth Basin. Three wells have been drilled within the permits, two of which were drilled in the 1960's. A more recent well, drilled in 2012 as part

of a carbon geo-sequestration pilot program, confirms the presence of good quality sandstone reservoir formations.

To date, exploration of the Perth Basin has been focused to the north. However the southern part of the basin hosts comparable geological formations to those that comprise the hydrocarbon play to the north, with mature gas-prone source rocks underlying sandstone reservoirs. The primary reservoir target in the permits is the Permian Sue Sandstone, with a secondary target in the overlying Lesueur Sandstone. Both reservoir targets could be drilled at the prospect location by a single well.

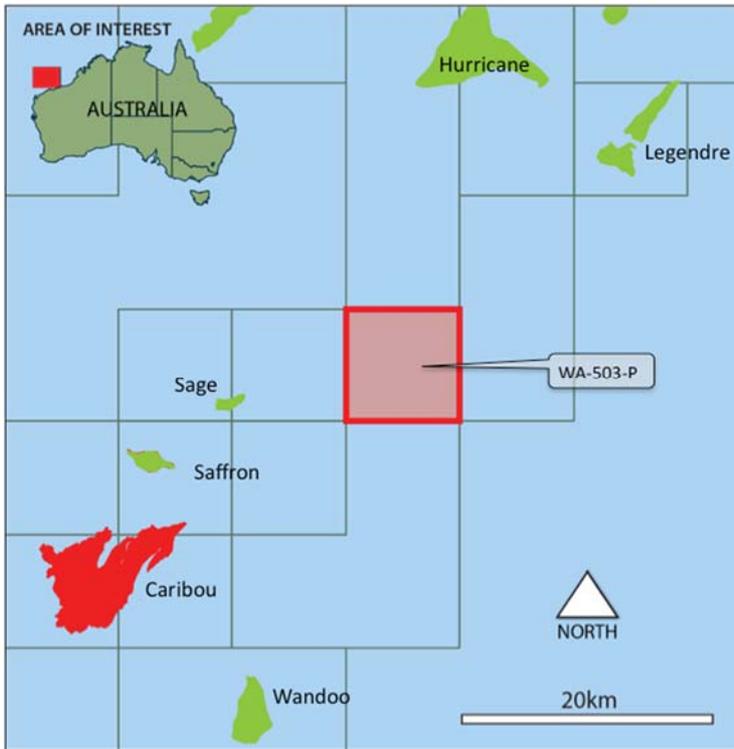
The available 2D seismic data reveals the presence of an up to 200km² structural prospect across the permits, for which Pilot Energy estimates significant prospective gas resources as follows (refer to Company announcement of 2 September 2015):

| Target | Low Case (Bscf) | Best Case (Bscf) | High Case (Bscf) |
|-------------------|-----------------|------------------|------------------|
| Sue Sandstone | 30 | 130 | 300 |
| Lesueur Sandstone | 60 | 140 | 300 |

Current Operator Empire Oil & Gas has received the final processed data for the “Black Swan” airborne geophysical survey acquired during mid 2015. The Joint Venture is presently interpreting the data, which supports the prospectivity of the permits. A more detailed announcement will follow in due course.

Australia: WA-503-P Exploration Permit

Pilot Energy holds an 80% working interest (as Operator) in exploration permit WA-503-P, and has commissioned GCA to conduct an independent assessment of the prospective oil resources for the three prospects identified within the permit. The Company anticipates that GCA’s findings will be announced to the ASX in February 2016.



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.

Further to receiving a Transitional Work Program Variation in WA-503-P, Pilot Energy has until May 2017 to complete the work commitments associated with the permit’s primary term, being acquisition of 80km² of new “Broadband” 3D seismic and completion of various geological and geophysical studies.

Corporate Summary

Financial: Reconciliation of expenditure

Exploration and evaluation expenditure amounted to \$644,000, comprised principally of the initial \$150,000 payment to Empire Oil & Gas (EP416/480) and the US\$250,000 payment to TGS NOPEC. Administration expenditure amounted to \$225,000, of which some \$103,000 were legal and other costs associated with closing of the Alaskan settlement.

Cash and receivables as at 31 December 2015 was \$763,000, after payment to TGS NOPEC of the US\$250,000 seismic license cost deferral payment.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 October 2015 to 31 December 2015.

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% ¹ |
| EP437 Western Australia | 0% | 13.058% ² |
| Western Block Project, North Slope Alaska USA | 30% | 0% |

¹ Pending approval of transfer and assignment from Empire Oil & Gas, by the regulatory authority.

² Pending approval of transfer and assignment from Caracal Exploration Pty Ltd, by the regulatory authority.

Enquiries

Iain Smith, Managing Director, Tel: +61 412 638019, email: ismith@pilotenergy.com.au

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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")

31 DECEMBER 2015

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for | | |
| (a) exploration and evaluation | (644) | (644) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (225) | (225) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 1 | 1 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes received / (paid) | - | - |
| 1.7 Other - | - | - |
| Net Operating Cash Flows | (883) | (883) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospects | (15) | (15) |
| (b) equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.9 Proceeds from sale of: | | |
| (a) prospects | 694 | 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 | 694 | 694 |
| 1.13 Total operating and investing cash flows (carried forward) | (188) | (188) |

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Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|-------|-------|
| 1.13 | Total operating and investing cash flows (brought forward) | (188) | (188) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | (8) | (8) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other – capital raising costs | (22) | (22) |
| | Net financing cash flows | (30) | (30) |
| | Net increase (decrease) in cash held | (219) | (219) |
| 1.20 | Cash at beginning of quarter/year to date | 902 | 902 |
| 1.21 | Exchange rate adjustments to item 1.20 | (21) | (21) |
| 1.22 | Cash at end of quarter * | 662 | 662 |

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 | 85 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

1.9 - proceeds of settlement with Royale Energy
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

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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 | 30 |
| 4.2 Development | - |
| 4.3 Production | - |
| 4.4 Administration | 200 |
| Total | 30 |

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 | 641 | 902 |
| 5.2 Deposits at call | - | - |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 641 | 902 |

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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 | Alaska Western Block | 30% | 0% |
| 6.2 | Interests in mining tenements acquired or increased * | EP 437 | 0% | 13.058% |

* consideration for the 13.058% interest in EP437 was \$15,000 cash, 20 million fully paid ordinary shares at 0.2 cents each and 20 million options, exercisable at 0.2 cents, expiring 30 June 2019.

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 ** | 1,605,476,834 | 1,605,476,834 | N/A |
| 7.4 | Changes during quarter (a) Increases through issues * (b) Decreases through returns of capital, buy-backs | 20,000,000 | 20,000,000 | 0.2 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 |

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Appendix 5B
Mining exploration entity quarterly report

| | | | | | |
|------|--|-------------|-------------|-------------------------------------|---------------------------------------|
| 7.7 | Options <i>(description and conversion factor)</i> | 108,164,528 | 108,164,528 | <i>Exercise price</i> 10.5 cents | <i>Expiry date</i> 31 January 2016 |
| | | 843,882 | - | \$1.185 | 14 February 2016 |
| | | 2,000,000 | - | 6 cents | 30 April 2016 |
| | | 10,083,334 | - | 12 cents | 30 September 2016 |
| | | 25,500,069 | - | 6.75 cents | 31 July 2016 |
| | | 12,500,000 | - | 12 cents | 31 October 2016 |
| | | 10,000,000 | - | 3 cents | 30 September 2017 |
| | | 125,000,000 | - | 0.2 cents | 30 June 2019 |
| | Performance rights | 45,000,000 | - | | 30 June 2018 |
| 7.8 | Issued during quarter | 20,000,000 | - | 0.2 cents | 30 June 2019 |
| 7.9 | Exercised during quarter | N/A | N/A | N/A | N/A |
| 7.10 | Expired during quarter | - | - | - | - |
| 7.11 | Debentures <i>(totals only)</i> | Nil | N/A | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | Nil | N/A | | |

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: 21 January 2016

Print name: David M McArthur

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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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