

## Pilot Energy Limited

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## Announcement to ASX

29 October 2021

# SEPTEMBER 2021 QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

## HIGHLIGHTS

- Capital raising of \$8 million completed in two tranches (\$0.75 million in June), with the balance \$7.25 million in August 2021 following shareholder approval. Funds raised provide sufficient capital to conclude the previously advised Feasibility Studies, Cliff Head expenditure and corporate costs.
- Following satisfaction of key conditions including the capital raising, the Company was reinstated to the ASX Official List on 11 August 2021.
- Key consultants engaged to conduct Feasibility Studies for Mid West WA Blue Hydrogen and Mid West WA Wind and Solar Projects.
- Workover activities successfully concluded at Cliff Head in relation to CH-6 (to replaced failed ESP) and reconfigure the CH-11 completion to increase production.

Subsequent to the end of the quarter:

- Pilot commenced the South West Carbon Management and Blue Hydrogen Feasibility Study with RISC, Genesis and Technip. The study will explore the opportunity to capture and store the South West Western Australian regions CO<sub>2</sub> and Flue gas emissions generated in the Kwinana Industrial Precinct, in addition to the potential development of a Blue Hydrogen project.
- Farm-in Agreement with AET to fund the drilling of one exploration well in Exploration Permit EP 416 or EP 480 to test the natural gas potential of the Leschenault Gas Prospect was finalised.
- CHJV completed a lifting on 26th October 2021, of 107,000 bbls of Cliff Head crude under the Offtake Agreement with BP Singapore, with the CHJV to receive approximately A\$10.7 million in November 2021.

Pilot Energy Limited (ASX: PGY) ("Pilot" or "the Company") is pleased to provide the following update on its operational and corporate activity for the quarter ended 30 September 2021 (and post quarter events to date).

## OPERATIONS REPORT

### Cliff Head Joint Venture

The Cliff Head Joint Venture is effectively held by the following group entities:

- Triangle Energy (Global) Limited (ASX: TEG) (“Triangle”): 78.75%
- Pilot Energy Limited: 21.25%\*\*\*

The key operational statistics for the quarter for the CHJV (100% basis) are set out in the table below.

July - September 2021	CHJV (100%)	PILOT (21.25%)
Production (bbls)	65,841	13,991
Average daily production (bopd)	716	152
Sales (bbls)	-	-
Average oil price received \$ per bbl	-	-
Sales revenue (\$'000)	-	-
Oil Inventory (122,271 bbls) (\$'000)*	3,427	728
Routine operating costs (\$'000)	(2,181)	(463)
<b>Operating Margin (\$'000)</b>	<b>1,246</b>	<b>265</b>
Trucking, storage & handling (\$'000)	(773)	(164)
<b>Gain/(Loss) from routine operations (\$'000)</b>	<b>473</b>	<b>101</b>
Non-routine operating costs (\$'000)	(847)	(180)
<b>Gain/(Loss) after non routine costs (before tax, \$'000)</b>	<b>(374)</b>	<b>(79)</b>

#### Notes:

\*Crude oil delivered and stored at BP Kwinana recorded as inventory until sale/offtake is completed. Crude oil sale/offtake arrangements with BP Singapore were announced on the ASX 14 October 2021.

\*\*Figures may differ immaterially to Triangles reported numbers due to the exchange rate applied to sales revenue (if applicable), methodology in valuing inventory and classification of non-routine costs.

\*\*\* Pilot (via its 100% subsidiary, Royal Energy) holds a 50% interest in Triangle Energy (Operations) Pty Ltd (“TEO”) which itself holds a 42.5% direct interest in WA -31 L and the Cliff Head Oil Field project. In accordance with applicable accounting standards, Pilot accounts for this investment on an equity accounting basis.

The Cliff Head Joint Venture (“CHJV”) continued to produce and deliver crude oil to BP Refinery (Kwinana) Pty Ltd (“BP Kwinana”) during the quarter. Crude oil delivered to BP Kwinana is recorded as oil inventory until sold. Cliff Head financials continue to improve as a result of the increase in the crude oil price. Operating costs continue to be in line with budget estimates.

As per the Company’s ASX Announcement on 14 October 2021, the Cliff Head Joint Venture (CHJV) advised that the CHJV participants have entered into a Binding Offtake Agreement (Offtake Agreement) with BP Singapore Pte Limited (BP Singapore), in relation to the sale and purchase of its crude oil produced at the Company’s Cliff Head Oil Field. Under the terms of the Offtake Agreement, BP

Singapore will purchase 100% of the crude produced from the Cliff Head Oil Field, commingled with crude and condensate of other producers (Designated Seller Groups), on FOB Kwinana terms. Triangle Energy (Operations) Pty Ltd (TEO), will act as the Operating Agent on behalf of all of the Designated Seller Groups in relation to each of their offtake agreements and has entered into an agreement with each of the Designated Seller Groups to govern the provision of these services.

The initial term of the Offtake Agreement is aligned with the terms of the Storage Agreement. The offtake is for the entire production quantity from the Cliff Head Oil Field, and pricing is at a fixed discount to Brent. BP Singapore has been granted a right to match any offers for the sale of Cliff Head Product sold on a standalone basis for a period of 3 years following the delivery period. The Producers may be subject to penalties and liabilities if they, or another Designated Seller Group member, delivers off-specification product.

As announced to the market on 27 October 2021, the CHJV completed a lifting on 26th October 2021, of 107,000 bbls of Cliff Head crude under the Offtake Agreement with BP Singapore, with the CHJV to receive approximately A\$10.7 million in November 2021. For a further 10,900 bbls of Cliff Head crude delivered and sold, in April 2021, under the amendment to the previous Crude Oil Supply Agreement with BP Australia (announced by TEG on 1 March 2021), the CHJV will now receive approximately A\$1.1 million, with the price received to be finalised at the end of October 2021.

During the quarter, workover activities successfully concluded at Cliff Head in relation to CH-6 (to replaced failed ESP) and reconfigure the CH-11 completion to increase production. As announced on 29 September 2021, it was confirmed that a downhole electrical fault had caused a shut in on CH-10. This well has produced reliably for nearly 12 years with the same ESP and this performance significantly exceeds the field average of 4 years. The CHJV has experts optimising ESP performance and production from the Cliff Head field. Field production has stabilised at circa 750 bopd.

During the quarter, the CHJV has continued with a farm-out campaign, to seek interested parties to participate in the drilling of West High, Mentelle and/or SE Nose development opportunities and prospects. Several companies are still evaluating the opportunity. The CHJV has also continued well planning for these opportunities targeting a drilling campaign during the first half of 2023. Well planning activities are moving into the detailed design phase to meet this drilling timetable.

### **Blue Hydrogen and Renewables Feasibility studies**

On 12 August 2021, Pilot announced arrangements with key contractors to commence the Mid West Blue Hydrogen and Renewables feasibility studies.

Pilot has commenced feasibility studies with global expertise



Pilot is undertaking three studies focused on the Mid West region and an additional study focused on the South West region. The following table provides an overview of the studies and forecast timing as previously advised.

Feasibility Study		Forecast total cash cost	Timing
<b>Blue Hydrogen Studies</b>			
1.	Mid West Blue Hydrogen & CCS	\$0.6m	Q3 FY21 – Q2 FY22
2.	Blue Hydrogen and CO2 technology study	\$0.9m	Q3 FY21 – Q2 FY22
3.	South West Blue Hydrogen & CCS	\$0.6m	Q3 FY21 – Q2 FY22
<b>Renewables Study</b>			
1.	Mid West Wind & Solar	\$0.9m	Q3 FY21 – Q2 FY22
<b>Total forecast cash cost</b>		<b>\$3.0m</b>	

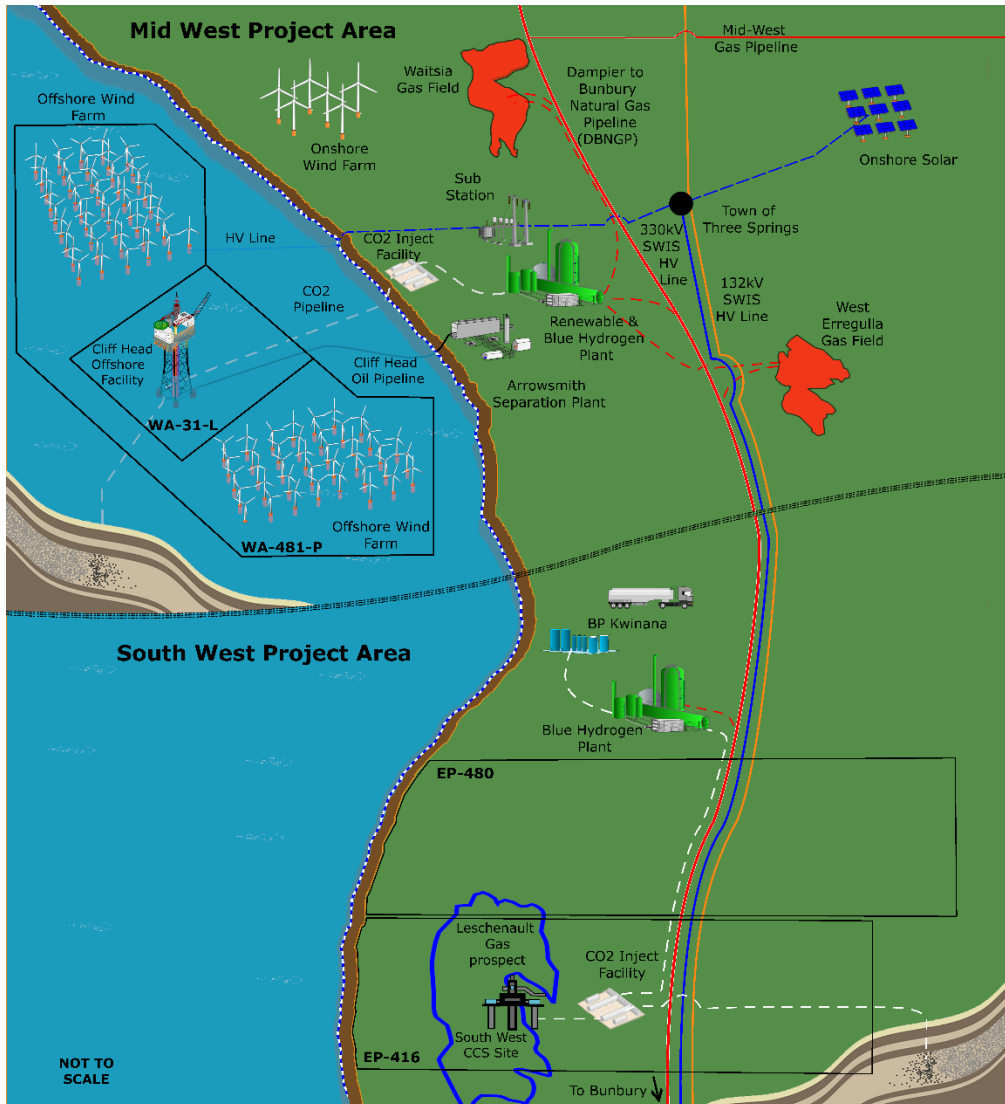
During the quarter the consultants for the Mid West Wind & Solar study have progressed initial assessments of the renewable energy resource potential, the domestic and international hydrogen markets for green hydrogen and basis of design for the project. These aspects coupled with the selection of hydrogen production (via electrolysis) system sizes will guide the review and assessment of project concepts to commercialise the regions renewable energy resources.

The Mid West Blue Hydrogen study consultants have initiated assessments of the Cliff Head CCS capacity and the domestic and international hydrogen markets for blue hydrogen and basis of design for the project. The CCS potential and demand forecast for blue hydrogen guide the review and assessment of project concepts to commercialise the CCS resource.

The Blue Hydrogen and CO2 technology study is focussed on 8 Rivers who developed two powerful technologies that will aid in the global transition to clean energy: the Allam-Fetvedt Cycle for power generation and 8RH2 for hydrogen production. Initial activities include sizing key modules for the power generation and 8RH2 technology suitable for Western Australian conditions and preparing a basis of design.

Subsequent to the end of the quarter, as announced to the market on 21 October 2021, Pilot commenced the South West Carbon Management feasibility study with RISC, Genesis and Technip scopes expanded to cover this additional study. The study will explore the opportunity to capture and store the South West Western Australian regions CO2 and Flue gas emissions generated in the Kwinana Industrial Precinct, in addition to the potential development of a Blue Hydrogen project. This additional study is being conducted in parallel with the Mid West studies and is expected to complete in the first quarter of CY2022.

**Figure 1. Pilot’s Mid West and South West project overview in WA**



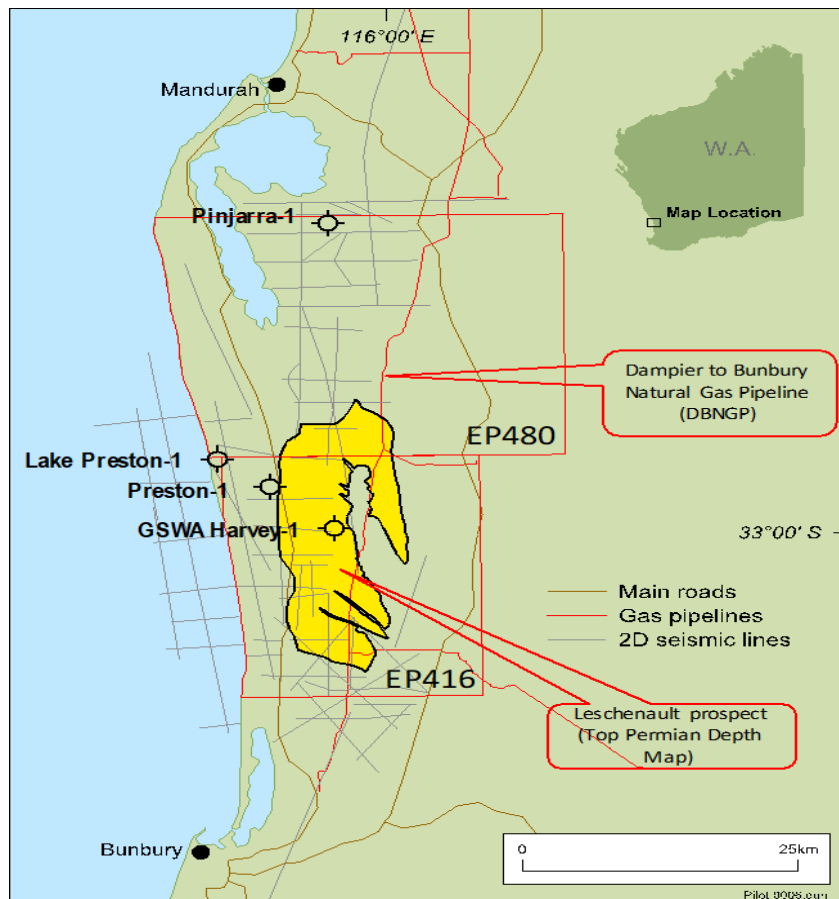
**Figure 1.** above depicts Pilot’s projects and facilities together with infrastructure that Pilot proposes to develop subject to the results of the feasibility studies. Pilot’s future projects anticipate leveraging its existing assets and resources to develop world class clean energy projects across the Mid West and South West regions of Western Australia. The future infrastructure projects may include, as shown above, a CO2 pipeline and injection facility, blue hydrogen plants, CCS sites, offshore and onshore wind, solar, renewable hydrogen plant, substation, transmission lines and hydrogen pipelines.

### South West Exploration Permit Farm-in

On 14 July 2021, Pilot and Advanced Energy Transition Pty Ltd (“AET”) reached agreement to a farm-in by AET into a 50% interest in a future retention lease or future production licence granted to Pilot by fully funding the drilling of one exploration well in Exploration Permit EP 416 or EP 480 to test the natural gas potential of the Leschenault Gas Prospect (see map below) in the primary reservoir target of the Permian Sue Group sandstone and the Triassic age Lesueur sandstones.

On 22 October 2021, Pilot and AET finalised the terms of the farm-in agreement with drilling operations forecast to commence by December 2022.

As a secondary target of the Leschenault Gas Prospect exploration well, Pilot and AET also intend to confirm that the key carbon sequestration reservoirs focused on as part of the South West Hub Carbon Capture and Storage (“CCS”) Project are also present in the exploration well and suitable for carbon sequestration as part of the overall project. The Company sees establishing the suitability of the exploration well location for carbon sequestration and as part of the overall South West Hub CCS Project as a key step in assessing the feasibility of the development of the company’s previously outlined South West Blue Hydrogen and Carbon Management Project.



**Leschenault Gas Prospect in EP 416 and EP 480 and SW Hub CCS Project Harvey-1 CO2 Sequestration Injection Test Well**

## CORPORATE ACTIVITIES

### Successful Capital Raising and ASX reinstatement

On 12 August 2021, the Company's securities were reinstated to the ASX Official List after satisfaction of ASX conditions. One of the key conditions related to raising sufficient funds to support the Company's business plans. In this regard, the Company announced it received commitments to raise \$8 million (before costs) over a two-tranche placement to institutional and sophisticated investors which was approved by shareholders at a General Meeting held on 4 August 2021.

In parallel with reinstatement the Company issued a prospectus dated 9 August 2021 to raise a nominal amount (\$1000) and to remove any trading restrictions that may have previously attached to shares issued before the closing date of the prospectus.

### Share Capital

During the quarter the Company issued a total of 2,367,431 shares pursuant to the exercise of options to Black Swan, to investor(s) under the Prospectus, and to certain contractors. Details of the shares issued are set out in ASX announcements on 20 August 2021 and 30 September 2021.

As at the date of this announcement, the Company has the following share structure:

- 501,601,701 ordinary shares on issue; and
- 64,666,637 outstanding (unlisted) options, with key terms as follows:
  - 7,090,910 options expiring 18 December 2022 (exercise price - \$0.033)
  - 37,575,727 options expiring 18 December 2022 (exercise price - \$0.066)
  - 10,000,000 options expiring 13 January 2023 (exercise price - \$0.066)
  - 10,000,000 options expiring 4 November 2025 (exercise price - \$0.070)

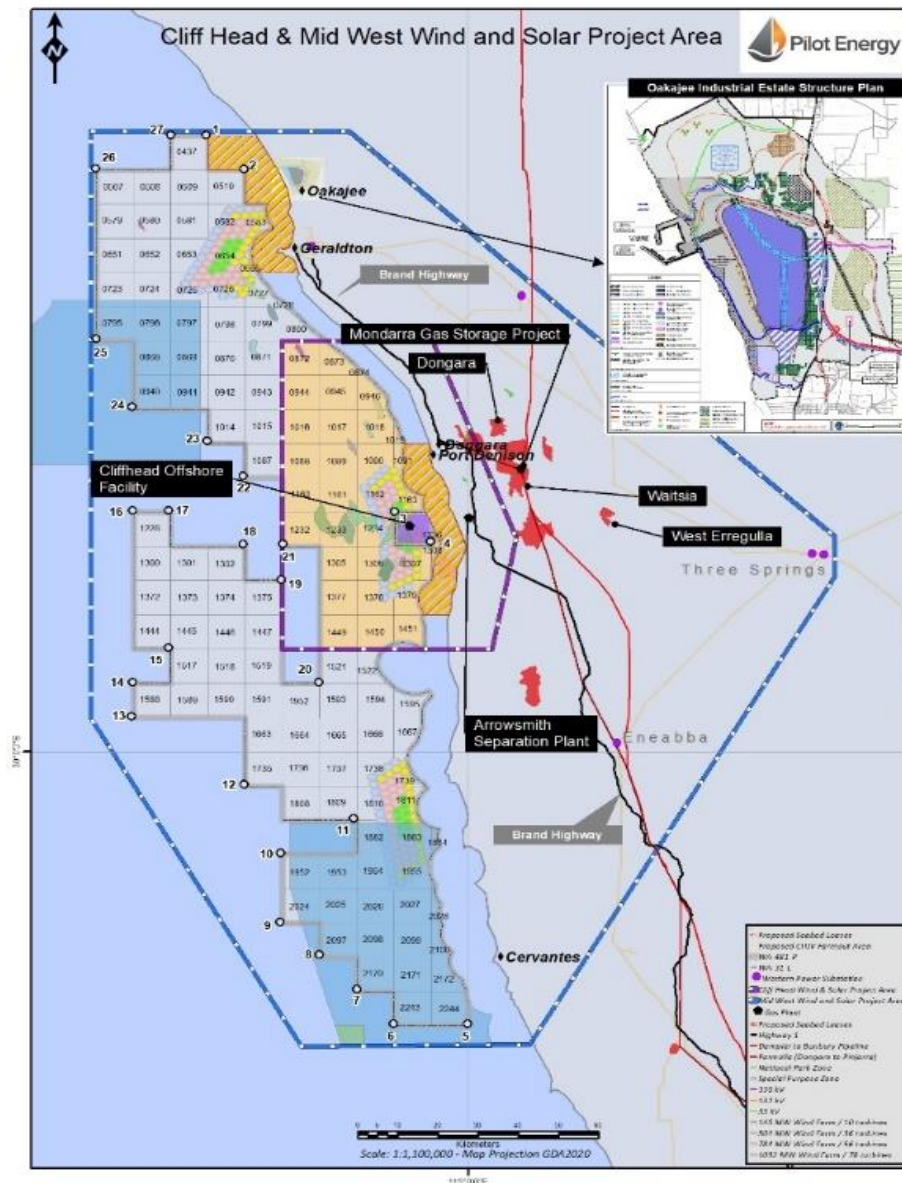
### WA-481-P Transaction

As previously advised in the June 2021 quarter, Pilot and Triangle executed the joint venture agreements and access deeds formalising the WA-481-P upstream joint venture and the Cliff Head Wind and Solar joint venture, the signing of which were conditions precedent under the WA-481-P Sale agreement. The remaining condition precedent relates to the Approval and Registration of the transfer of Key's 40% registered interest to Pilot. The Regulator (NOPTA) is finalising the transfer and during the quarter Pilot and Triangle have actively assisted NOPTA with assessment of the proposed transfer. Completion of the transaction anticipated to occur in the Oct-Dec 2021 quarter. On completion:

- Triangle will Pay Pilot \$300,000 in cash and 100% free carry Pilot through the completion of the Year 3 \$5.75 million minimum work programme, with a value of approximately \$1.23 million for Pilot's work programme share;
- Triangle operated WA-481-P Joint venture (78.75% Triangle, 21.25% Pilot) will commence; and



- Pilot operated Cliff Head Wind and Solar joint venture (Pilot 80%, Triangle 20%) will commence.



## Contingent and Prospective resources

The independent technical reports prepared by RISC in support of the Royal Energy acquisition, present an updated report on the Contingent and Prospective Resources associated with the Company’s upstream oil and gas assets and the Cliff Head Joint Venture. The Company confirms there are no changes to the information which was previously presented to the market in the Company’s ASX Announcement “Resources Update” dated 23 April 2021.

## Payments to Related Parties of the Entity and their Associates

The payments to related parties and their associates as disclosed in the Appendix 5B relate to consulting fees and directors’ fees, paid to directors.



## Feasibility Study Reporting

During the Mid-West Wind and Solar renewables feasibility period (through to September 2022), the Company is required by the ASX to provide the following additional information on the allocation of expenditure between its oil and gas activities and Mid West Wind and Solar feasibility activities.

Expenditure Category	Quarterly Expenditure (\$'000)	Proportion of total expenditure
<b>Oil &amp; Gas Activities</b>	<b>1,990</b>	<b>95%</b>
• Cliff Head operations and capex*	1,436	69%
• Other Exploration and evaluation	554	26%
<b>Mid-West Wind and Solar</b>	<b>99</b>	<b>5%</b>
<b>Total</b>	<b>2.089</b>	<b>100%</b>

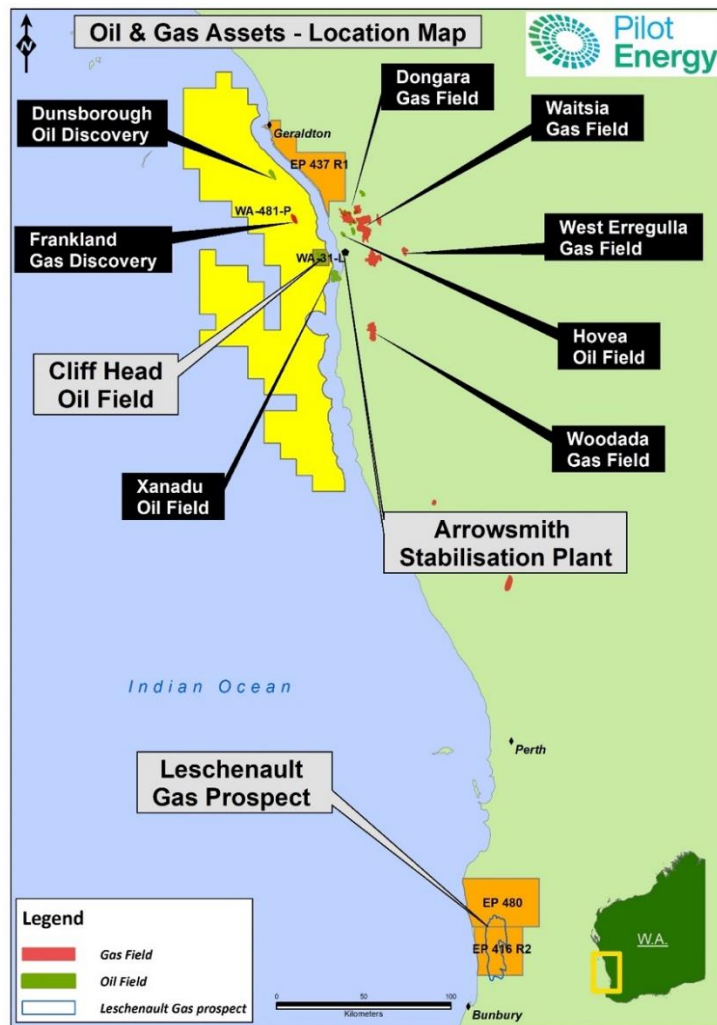
Notes:

\*Pilot (via its 100% subsidiary, Royal Energy) holds a 50% interest in TEO which itself holds a 42.5% direct interest in WA -31 L and the Cliff Head Oil Field project. In accordance with applicable accounting standards, Pilot accounts for this investment on an equity accounting basis. As such Pilot's expenditures in the above table represent Pilot's proportionate share of operational/capex expenditure incurred by CHJV. The figures reported in the Appendix 5B sections 2.3, 3.5 & 3.6 reports only net cashflows to/from TEO.

## ASX Listing Rule 5.3.3: Tenement Details

The following table summarises Pilot's interest in its Oil and Gas tenements which are also presented on the map below.

Tenement reference	Tenement Location	Interest at beginning of quarter	Interest at end of quarter
WA-31-L <sup>i</sup>	Western Australia – Offshore Commonwealth Waters	21.25%	21.25%
WA-481-P <sup>ii</sup>	Western Australia – Offshore Commonwealth Waters	100%	100%
EP416	Western Australia – Onshore	100%	100%
EP480	Western Australia – Onshore	100%	100%
EP437	Western Australia – Onshore	13.058%	13.058%
i) The Company holds a 50% interest in TEO which has a 42.5% direct interest in WA-31L. Pilot acquired this indirect interest through its acquisition of Royal Energy on 1 June 2021.			
ii) Subject to the completion of the sale of an interest to Triangle, the Company will hold a 21.25% non-operated interest.			



**Pilot Oil and Gas asset map**

**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 a former Director of Pilot Energy Ltd and has consented to the inclusion of this information in the form and context to which it appears.

This announcement has been authorised for release to ASX by Bradley Lingo and Tony Strasser on behalf of the Board of Directors of Pilot Energy Limited.

## Enquiries

Cate Friedlander, Company Secretary, email: [cfriedlander@pilotenergy.com.au](mailto:cfriedlander@pilotenergy.com.au)

**About Pilot:** Pilot is currently a junior oil and gas exploration and production company that is aggressively pursuing the diversification and transition to the development of integrated renewable energy, hydrogen and carbon management projects by leveraging its existing oil and gas tenements and infrastructure to cornerstone these developments.

Pilot holds a 21.25% interest in the Cliff Head Oil field, material working interests in WA-481-P and EP416/480 exploration permits, located offshore and onshore Western Australia, which form foundation assets for the potential development of clean energy projects in Western Australia.

## Annexure 1 Feasibility Study Reporting Conditions

1. The Company must continue to spend funds on its existing and proposed oil and gas projects.
2. The Company must disclose in each quarterly activities report until September 2022, the proportion of expenditure incurred in relation to exploration and evaluation on the oil and gas projects and the Mid West Wind and Solar Project.
3. The Company must disclose as separate line items in each quarterly activities report until September 2022, expenditure incurred in relation to exploration and evaluation on the oil and gas projects and the Mid West Wind and Solar Project.
4. Proceeding beyond the feasibility study stage of the Project (or incurring expenditure in excess of the budgeted feasibility expenditure in relation to the Project) constitutes a change in the nature and scale of the Company's activities in terms of Listing Rule 11.1 and as such the Company will be required to comply with all of the requirements of Chapters 1 and 2 of the Listing Rules before it proceeds beyond the feasibility study or incurs expenditures in excess of the budgeted feasibility expenditure on the Project.