

Pilot Energy Ltd

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Announcement to ASX

29 January 2021

DECEMBER 2020 QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

HIGHLIGHTS

- Completion of \$3 million equity capital raising via share placement to institutional and sophisticated investors (\$2.5 million) and fully underwritten share purchase plan (\$0.5 million) with \$2.8 million received prior to 31 December 2020.
- Major restructure of the ownership of offshore Perth Basin exploration permit WA-481-P securing \$300,000 in cash and 3-year work programme full carry valued at approximately \$1.2 million (transaction expected to complete in March 2021)
- Formation of the Cliff Head Wind & Solar Project Joint Venture with Triangle Energy and Pilot as 80% owner and operator centered on the Cliff Head Offshore Oil Field
- Acquisition of additional interest in South Perth Basin exploration permits which provides foundation for the South West Blue Hydrogen and Carbon Capture Storage Project
- Submission of expression of interest for the Oakajee Strategic Industrial Area Renewable Hydrogen Project to the Government of West Australia providing comprehensive renewable energy, hydrogen and carbon management solutions
- Successful completion of Cliff Head 7 Workover Programme which is expected to increase production by an additional ~235 BOPD to approximately 825 BOPD

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 31 December 2020.

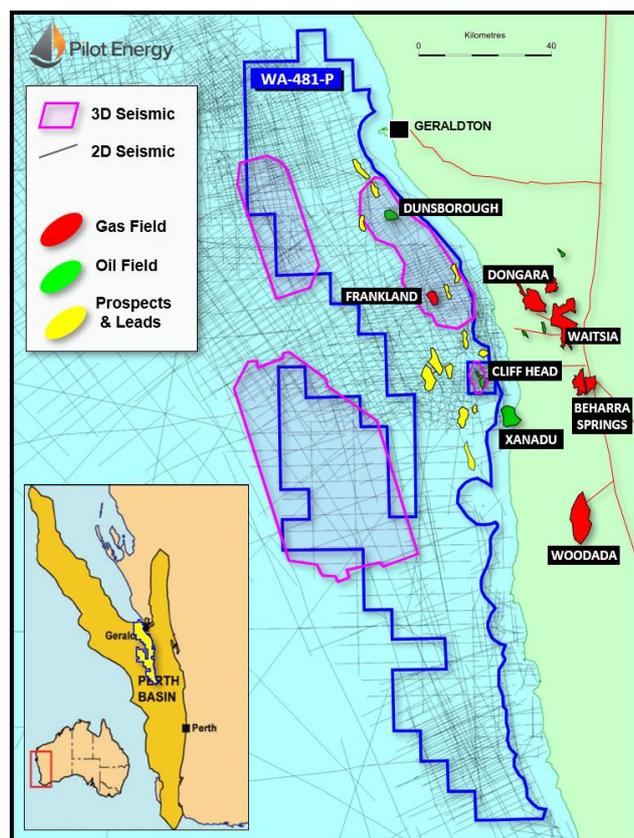
OPERATIONAL UPDATE

Major Restructure of Ownership of Offshore Perth Basin Exploration Permit WA-481-P

During the December quarter, Pilot completed a major restructure of the ownership and operatorship of offshore Perth Basin exploration permit WA-481-P. This restructure was accomplished through two major transactions with Triangle Energy (Group) Limited (ASX:TEG) ("**Triangle**") and Key Petroleum Limited (ASX:KEY) ("**Key**"). During the September Quarter 2020, the Company announced (refer ASX release 8 September 2020) that it had entered into an agreement with Key Petroleum to acquire a 40%

interest in WA-481-P resulting in the Company becoming the 100% owner and operator of the newly renewed permit. Following this announcement, the Company also announced (refer ASX release 25 September 2020) that it had entered into definitive agreements to acquire Royal Energy Pty Ltd (“**Royal**”) as the owner of a 21.25% interest in the producing Cliff Head Offshore Oil Field and its associated permits.

WA-481-P Permit – Seismic & Prospects Map



During the December Quarter, the Company entered into a definitive agreement with KEY to complete the WA-481-P acquisition (refer ASX release 6 October 2020). Following the announcements of entering into the agreements to acquire the 40% interest in WA-481-P and acquiring Royal Energy and its interest in the Cliff Head Offshore Oil Field, the Company announced that it entered into a binding agreement with Triangle to sell a 78.75% interest in and transfer operatorship of offshore Perth Basin exploration permit WA-481-P to Triangle (refer ASX release 9 November 2020). Triangle holds a 78.75% interest in the Cliff Head Offshore Oil Field and is the joint venture operator of the Cliff Head Oil Field production assets and infrastructure along with Royal. WA-481-P is located immediately adjacent to, contiguous with and surrounds the Triangle-operated offshore Cliff Head Oil Field. (see map above).

Under the terms of the acquisition agreement, Triangle will purchase a 78.75% working interest in the Exploration Permit WA-481-P and become the operator of record for the permit. As consideration, Triangle will (1) pay Pilot \$300,000 in cash; and (2) provide Pilot with a 100% free carry through the completion of the Year 3 \$5.5 million minimum work programme with a value of \$1.23 million to Pilot’s work programme share.

Through the sale of the majority 78.25% interest in and transfer of operatorship of WA-481-P, Pilot and Triangle have created substantial alignment between the to be newly created WA-481-P Joint Venture and the existing Cliff Head Oil Field Joint Venture in which Pilot acquired an effective 21.25% interest upon the completion of the Royal Energy Acquisition.

To further facilitate this alignment, Triangle agreed that Pilot’s share in any oil and gas discoveries in WA-481-P developed and produced through the Cliff Head Oil Field facilities will have access to these facilities on the same basis as Triangle.

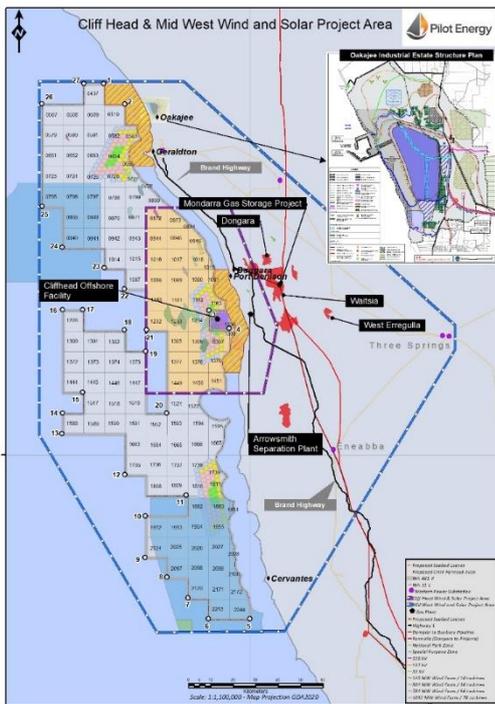
The WA-481-P permit contains numerous leads and prospects located with close proximity to the Cliff Head Alpha Production Platform. As part of the definitive agreement to acquire the majority interest in WA-481-P, Triangle has also agreed that the work programme to be conducted in the permit will be directed in the defined area (the “Work Programme Focus Area”) around Cliff Head covering these numerous previously identified leads and prospects (see map above).

Under the WA-481-P joint venture agreement, Pilot will be designated the operator's representative (with Pilot to have exclusive and sole discretion to act on behalf of the WA-481-P joint venture) for all matters relating to wind power exploration and development within the area of WA-481-P.

Formation of Cliff Head Wind and Solar Project Joint Venture

In addition to and in parallel with the sale of the majority interest in WA-481-P, Pilot and Triangle have also agreed to form the Cliff Head Wind and Solar Project Joint Venture to assess the feasibility and pursue the development of an offshore wind and onshore wind and solar power project centred around the Cliff Head Offshore Oil Field Production facilities, Cliff Head Alpha and the onshore Arrowsmith Separation and Processing Facilities (the "Project").

Under the agreement, Pilot and Triangle have agreed to negotiate a definitive joint venture agreement to establish an independent joint venture – the "Cliff Head Wind and Solar Project Joint Venture" – to undertake a detailed assessment of the feasibility and pursue the development of an offshore wind power farm in the area centred around the Cliff Head Offshore Oil Field Production Platform and an onshore wind and solar power farm adjacent to the onshore Arrowsmith Separation and Processing Facilities (the "Cliff Head Wind and Solar Project") see map below defining the area for the Cliff Head Wind and Solar Project and Joint Venture.



The parties have agreed that key terms of the joint venture to be negotiated will provide that Pilot will hold an 80% interest and operate the Cliff Head Wind & Solar Project Joint Venture and Triangle will hold the remaining 20% interest. The key terms of the Cliff Head Wind and Solar Project Joint Venture" include (1) Pilot and Triangle to negotiate an access and coordination agreement to establish the basis for providing access to the existing Cliff Head A Platform, the offshore/onshore pipeline right-of-way from the platform and to the onshore Arrowsmith Separation and Processing Facilities; and (2) Pilot to carry Triangle for the costs in conducting the feasibility studies for the development of the Cliff Head Wind and Solar Project. The graphic below shows

the potential development concept.

Cliff Head Wind & Solar Project

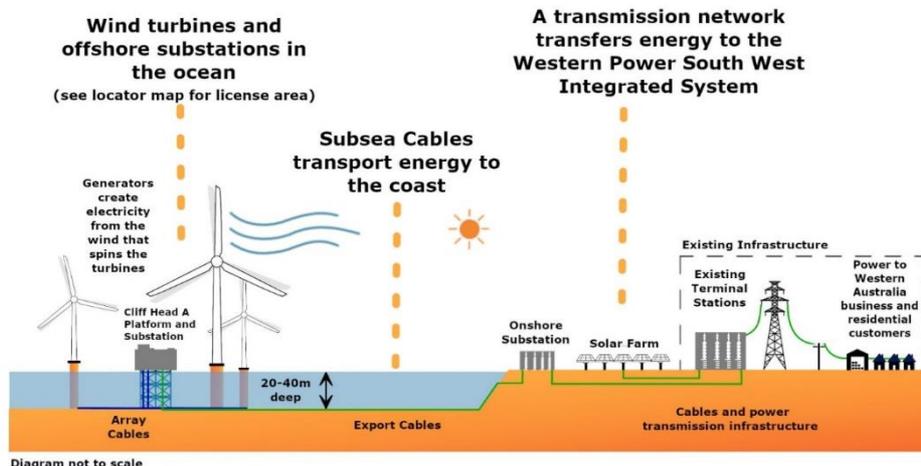
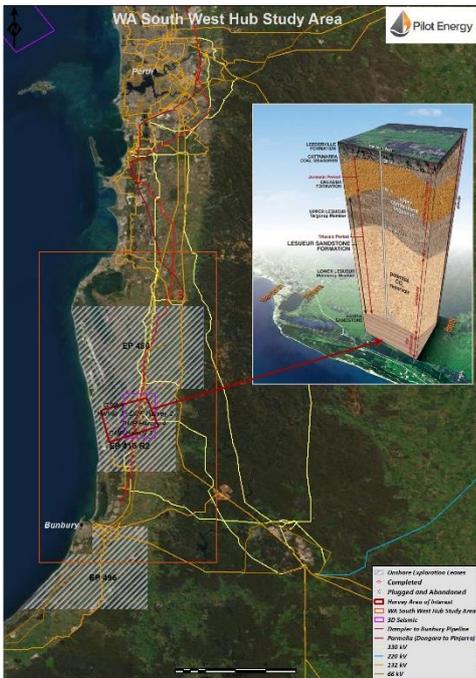


Diagram not to scale

Acquisition of South Perth Basin Permits and South West Blue Hydrogen & CCS Project



On 18 December 2020, Pilot announced the acquisition of the 40% interest held by Energy Resources Limited in both EP 416 and EP 480. Following the acquisition Pilot becomes the 100% owner/operator of these South Perth Basin (SPB) permits.

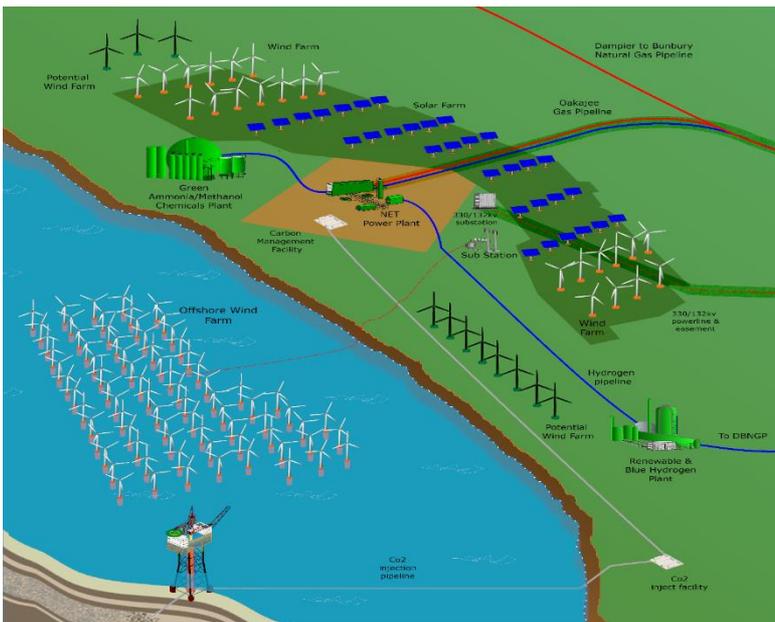
The SPB permits cover the area for the Western Australian Government proposed SW Hub Carbon Capture Storage (CCS) Project. The South West Hub is managed by (DMIRS) with funding from the Australian Government’s CCS Flagships program through the Department of Industry, Innovation and Science (DIIS).

The acquisition of the SPB permits provides the foundation for the Company to focus on the South West Blue Hydrogen and CCS Project. The adjacent map shows the exploration permits along with the Blue Hydrogen and CCS project areas.

The work undertaken to date by the Western Australian Government and the CSIRO has established that the SW Hub Carbon Capture potential (in a success case) is up to 800,000 tonnes per annum (tpa) to be injected for a period of 30 years and to remain within the reservoir for at least 1000 years.

Oakajee Strategic Industrial Area Renewable Hydrogen Project Submission

Towards the end of December Quarter 2020, the Company also responded to the Government of Western Australia’s Call for Expressions of Interest for the Oakajee Strategic Industrial Area (“**Oakajee SIA**”) Renewable Hydrogen Project. The Company’s comprehensive response provided multiple options based on an integrated renewable energy, blue and green hydrogen and carbon management solution (see project concept drawing below).



Core to the submission was the Company’s focus on leveraging its current development concepts for the Mid West Integrated Wind and Solar Project and position in the Cliff Head Oil Field. Utilizing this position, the Company believes that in delivering an integrated renewables, hydrogen and carbon management solution it can deliver an industrial scale hydrogen solution with a cost as low as LCOH of A\$2/kg with a zero CO2 emissions outcome for both domestic and export hydrogen demands as well as feedstock for both green chemical and green steel requirements. This integrated solution can be delivered

independent of or in conjunction with the Oakajee SIA. The Company notes that the West Australian Government announced on 21 January 2020 that it had received submissions for the Oakajee SIA from 65 parties and at least 10 of the parties were described by the Government as supermajors. The Company looks forward to participating in the West Australian Government's Oakajee SIA Renewable Hydrogen expression of interest process and will also continue pursuing a parallel and independent assessment and development of the Mid West Integrated Renewables, Hydrogen and Carbon Management Projects.

Cliff Head Workover Programme

The Company announced a Cliff Head Workover Programme (refer ASX release 26 October 2020) on CH-6 and CH-7 with a Hydraulic Workover Unit mobilized to the Cliff Head Alpha Platform. The programme resulted in the successful resumption of production at CH-7 at an expected rate of 237 BOPD bringing the field total production to approximately 825 BOPD (refer ASX release 1 December 2020). The CH-6 workover was temporarily suspended after initial attempts to retrieve the existing ESP were unsuccessful.

CORPORATE UPDATE

Board Restructure

In anticipation of the completion of the Royal acquisition, the Company also during the quarter commenced a restructuring of the Board of Directors to align the Board composition, skills and experience with the transitioning direction of the Company's business. This commenced towards the end of the September Quarter 2020 with the appointment of Mr. Daniel Chen as a Non-Executive Director (refer ASX release 16 September 2020). The restructuring and realignment of the Board in anticipation of the completion of the Royal transaction continued in early December with the resignation of Dr Youqing (Walker) Li and Dr Guoping Bai as Directors of the Company (refer ASX release 1 December 2020).

Capital Raising

On 25 September 2020, the Company announced it had secured commitments for a \$2.5 million placement and that it would undertake a \$0.5 million SPP for existing shareholders. The Company completed Tranche 1 of the placement through the issue of 15.9 million shares on the 1 October 2020 and completed Tranche 2 of the placement through the issue of 59.8 million shares on 22 December 2020. In total the Company received \$2.5 million. On 25 November 2020, the Company announced the results of the Security Purchase Plan (SPP) announced on 7 October 2020. The Company accepted applications from eligible shareholders, totaling \$115,500. The SPP was fully underwritten by Bridge Street Capital Partners Pty Ltd up to \$500,000. At 31 December 2020, the Company held \$1.55 million cash at bank.

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.

Feasibility Study Reporting

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

Expenditure Category	Quarterly Expenditure	Proportion of total expenditure
Oil & Gas exploration and evaluation	\$10,550	2.9%
Mid West Integrated Renewables	\$0	0%
Corporate	\$357,934	97.1%
Total	\$368,484	100.0%

Note: Refer to December 2020 Appendix 5B section 1.2 (a)

ASX Listing Rule 5.3.3: Tenement Details

Tenement reference	Tenement Location	Interest at beginning of quarter	Interest at end of quarter
WA-481-P	Western Australia – Offshore Commonwealth Waters	60%	100%*
EP416	Western Australia – Onshore	60%	100%
EP480	Western Australia – Onshore	60%	100%
EP437*	Western Australia – Onshore	13.058%	13.058%
WA-503-P**	Western Australia – Offshore Commonwealth Waters	80%	80%

*The operator of the permit has applied for a suspension of the current Year 3 work programme. Under the terms of the acquisition of Key Petroleum's interest in WA-481-P, the Company has no further obligations for current or future work programme commitments.

**Currently proceeding with cancellation of permit interest with NOPTA which is expected to be completed by the end of March Quarter 2021.

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 Michael Lonergan on behalf of the Board of Directors of Pilot Energy Limited.

Enquiries

Pilot Energy Limited: Lisa Dadswell, Company Secretary,
email: lisa.dadswell@boardroomlimited.com.au

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

PILOT ENERGY LIMITED

ABN

86 115 229 984

Quarter ended ("current quarter")

31 Dec 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation (if expensed)	(368)	(368)
(b) development	-	-
(c) production	-	-
(d) staff costs	(167)	(167)
(e) administration and corporate costs	(695)	(695)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (Joint Venture receipts received for prior exploration payments.)	21	21
1.9 Net cash from / (used in) operating activities	(1,210)	(1,210)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation (if capitalised)	-	-
(e) investments	-	-
(f) other non-current assets	-	-

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) 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	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,808	2,808
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(63)	(63)
3.5	Proceeds from borrowings	37	37
3.6	Repayment of borrowings	(30)	(30)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,752	2,752

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7	7
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,210)	(1,210)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,752	2,752

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,549	1,549

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	1,549	7
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)	1,549	7

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
446
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities		Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>			
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>			
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000	
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,210)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	-
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(1,210)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	1,549
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	1,549
8.7	Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	1

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: Yes. Note a significant portion of costs incurred in the December 2020 Quarter relate to transaction related expenses working towards the completion of the Pilot Energy acquisition and the sale of a majority interest in WA-481-P to Triangle Energy. These transactions are anticipated to be completed prior to the end of the March 2021 Quarter. Completion of the Royal Energy acquisition is expected to increase the company's cash and liquid assets position by approximately \$1.4-1.5 million. Completion of the Triangle Energy WA-481-P sale is expected to increase the Company's cash position by approximately \$300,000 and to provide the company with a long-term work programme carry (through Permit Year 3 – August 2023) amounting to approximately \$1.2 million. With the completion of these transactions, the Company anticipates similar costs of this nature will significantly decline. In addition, currently all work programme commitments in relation to Permits EP 416 and 480 in the onshore Southern Perth Basin are under suspension. The Company has no other work programme commitments. During the December 2020 Quarter, the company had not yet commenced spending on the Mid West Wind & Solar Project feasibility study.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Yes. Completion of the Royal Energy acquisition is expected to increase the company's cash and liquid assets position by approximately \$1.4-1.5 million. Completion of the Triangle Energy WA-481-P sale is expected to increase the Company's cash position by approximately \$300,000 and to provide the company with a long-term work programme carry (through Permit Year 3 – August 2023) amounting to approximately \$1.2 million. These transactions are anticipated to be completed prior to the end of the March 2021 Quarter.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. See the responses to 8.8.1 and 8.8.2 above.

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.

Date: 29 January 2021

Authorised by: By the Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.