

Announcement to ASX

25 January, 2017

SEPTEMBER 2016 QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

QUARTERLY HIGHLIGHTS

- Leschenault gas prospect independently confirmed to have potential for up to 1.6 Tcf gas
- Renewal of EP416 exploration permit, and variation of EP480 work program
- Receipt of \$65 million WA-481-P PRRT credits greatly reduces tax liability for future discoveries
- Numerous oil and gas prospects confirmed in WA-481-P
- Receipt of WA-507-P R&D rebate
- Drilling of Wye Knot-1 exploration well confirmed for 2017

EP416 & EP480 Exploration Permits (Operator, 60%)

As announced on 7 November 2016, RISC Operations Pty Ltd (**RISC**), completed an audit of the Company's internal estimate of prospective resources for the Leschenault prospect, located in exploration permits EP416 and EP480.

RISC's report confirms the prospective resources of the two main reservoir target intervals, as follows:

Reservoir	Gross (100%) Bcf			Net to Pilot (60%) Bcf		
	Low	Best	High	Low	Best	High
Lesueur Sandstone	150	435	970	90	260	580
Sue Sandstone	120	290	625	70	175	375
Total	270	725	1,595	160	435	955

The Leschenault prospect is located across permits EP416 and EP480, within the southern Perth Basin and less than 10 km from the DBNGP regional gas distribution pipeline. RISC confirm the presence of a very large, structurally robust prospect, with up to 240 km² of structural closure. Leschenault is a "three-way dip" feature that relies on closure to the west by a major bounding fault and exhibits two 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. In order to address this risk, a geochemical survey will be conducted during the coming months, with results expected early Q3 2017. 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.

Also during the reporting period, the West Australian Department of Mines & Petroleum (WADMP) granted a renewal of the EP416 exploration permit. The permit was 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 WADMP also agreed to vary the work program for the current permit year of exploration permit EP480. Previously the EP480 permit carried a commitment to acquire 50 km of 2D seismic data, with an associated financial commitment of A\$1,500,000. The replacement work program now constitutes

geochemical surveying, advanced processing of the Falcon AGG airborne geophysical data, and geotechnical studies with a financial commitment of A\$350,000; providing consistency of work programs across both EP480 and EP416. At the time of the work program variation application, the Joint Venture also voluntarily relinquished the seven northern-most graticular blocks of EP480, which are considered to be non-prospective for hydrocarbons.

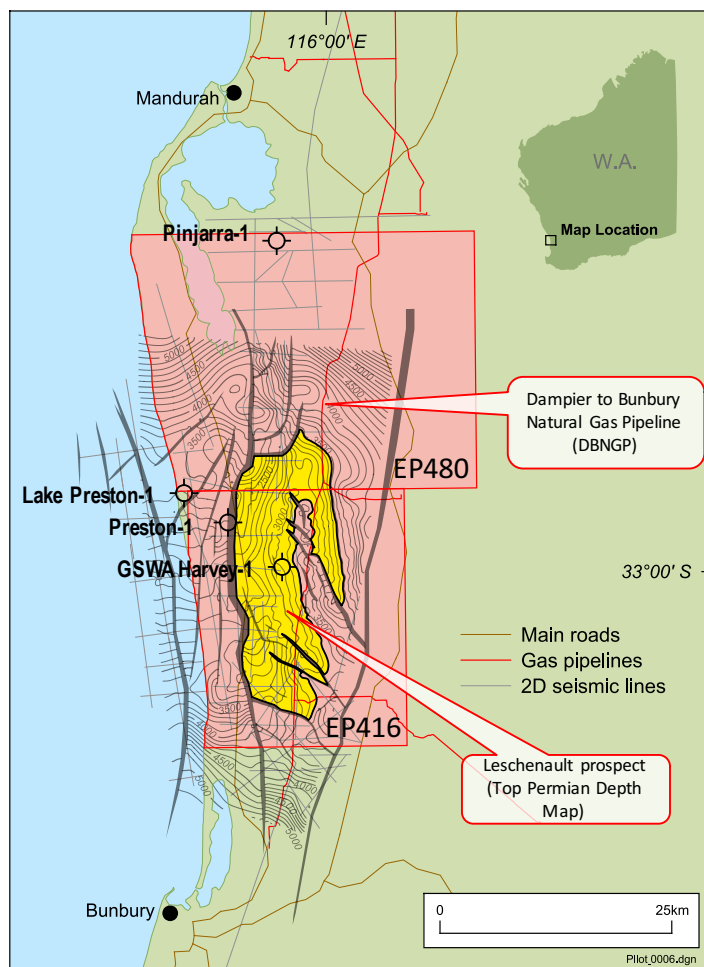


Figure: Leschenault Prospect Location Map

WA-481-P (Operator, 60%)

As announced on 20 December 2016, the Company has completed its preliminary interpretation of technical data in exploration permit WA-481-P.

WA-481-P is located adjacent to existing oil and gas infrastructure, within shallow waters to the west of the onshore Dongara/Beharra Springs/Waitsia gasfields, and the Jingemba/Hovea/Cliff Head oilfields. The permit is very large (17,475 km²) and 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. Both oil and gas are proven within the permit, with the Frankland gas and the Dunsborough oil discoveries representing contingent resources.

The permit is well covered by both 3D and 2D seismic data, which confirms the presence of thirteen structural prospects across a variety of geological plays. In addition to the Frankland, Cliff Head and Leander Reef trends previously announced by the Company, a fourth trend has been upgraded in the vicinity of the Dunsborough oil discovery.

Pilot Energy is presently finalising its estimate of prospective resources for each prospect, and anticipates announcing the results by early February 2017.

As announced on 16 November 2016, Pilot Energy received a transfer of Petroleum Resource Rent Tax (PRRT) credits, as the final step in completion of the acquisition of exploration permit WA-481-P. The undeducted exploration expenditure of \$65,518,292 represents the previous titleholder's net exploration cost during the primary term, and the Company will now assign 40% of this sum to joint venture partner, Key Petroleum Limited.

The effect of the PRRT credit is to greatly increase the value of any commercial discovery, as the undeducted expenditure is uplifted on an annual basis and available as a deduction against assessable petroleum sales income for determination of PRRT. With PRRT levied at a rate of 40%, the tax liability associated with development of future discoveries in WA-481-P could be reduced by as much as \$75 million, greatly enhancing the value of the permit and its prospects.

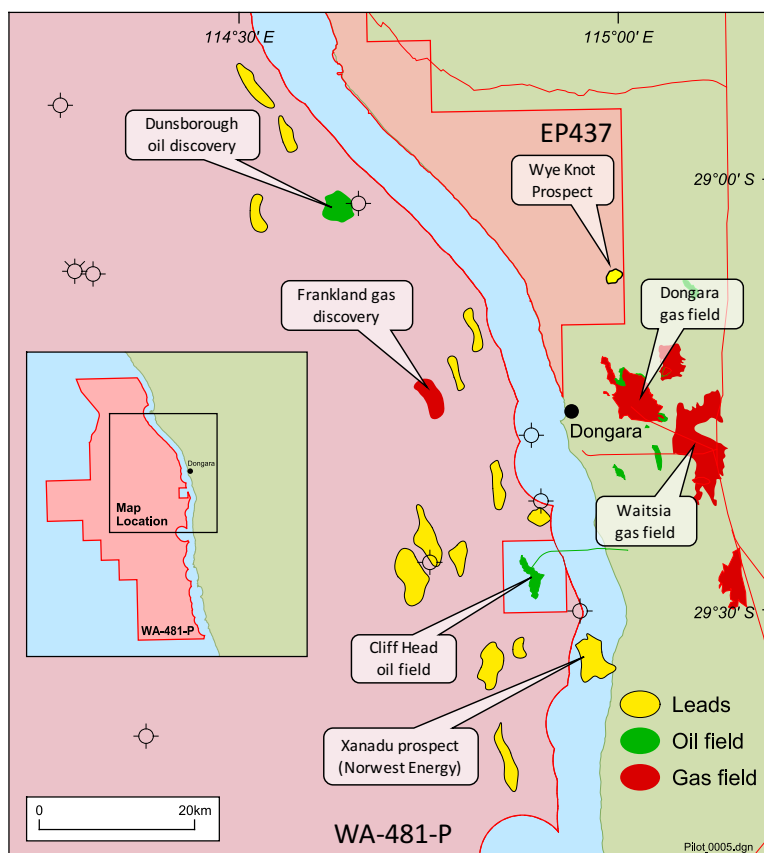


Figure: WA-481-P Discoveries and Prospect Map

EP437 Exploration Permit (13.058%)

On 19 December 2016 the Company announced that the EP437 Joint Venture has approved the work program and budget for drilling of the Wye Knot-1 exploration well.

Exploration Permit EP437 is located in the north Perth Basin, between the towns of Geraldton and Dongara. The large Dongara gas field and Jingemia/Hovea oil fields are located some 10km to the south, and the Mount Horner oil field is located 10km to the east. Wells drilled within the permit to date confirm that the surrounding petroleum system extends in to EP437.

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 good, live oil shows during drilling. The presence of oil shows indicates that the reservoirs were originally oil-filled at the Wye-1 location, with the oil 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.

Operator Key Petroleum has been successful in applying for a \$200,000 Exploration Incentive Scheme grant from the West Australian Department of Mines & Petroleum, and the net cost to drill Wye Knot-1 (after allowing for the grant) is estimated at up to A\$1.7 million.

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.

The Operator is commencing a formal tendering process for the rig and long lead items. Availability of a suitable rig, and various regulatory approvals will determine the schedule for drilling in 2017, and precise timing will be confirmed in due course.

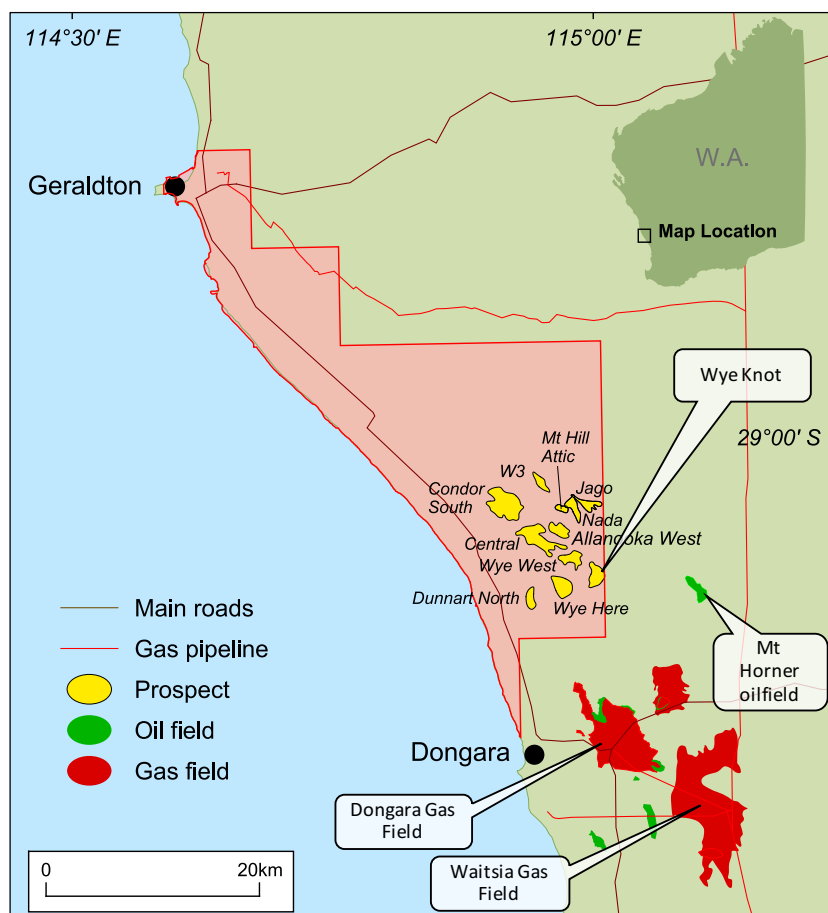


Figure: EP437 and Wye Knot Prospect Location Map

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

The Company has registered an R&D project pertaining to WA-507-P, under the R&D Tax Incentive scheme, and during the reporting period received an initial R&D refund of A\$97,000, based on seismic license and other costs incurred in the 2015 financial year. Pilot Energy expects to receive a further R&D refund in Q2 2017, of approximately A\$600,000, based on costs incurred in the 2016 financial year.

Block WA-507-P is located within the prolific Northern Carnarvon Basin, covering an area of 1,622 km² 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 km² to 121 km² 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 very significant 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 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.

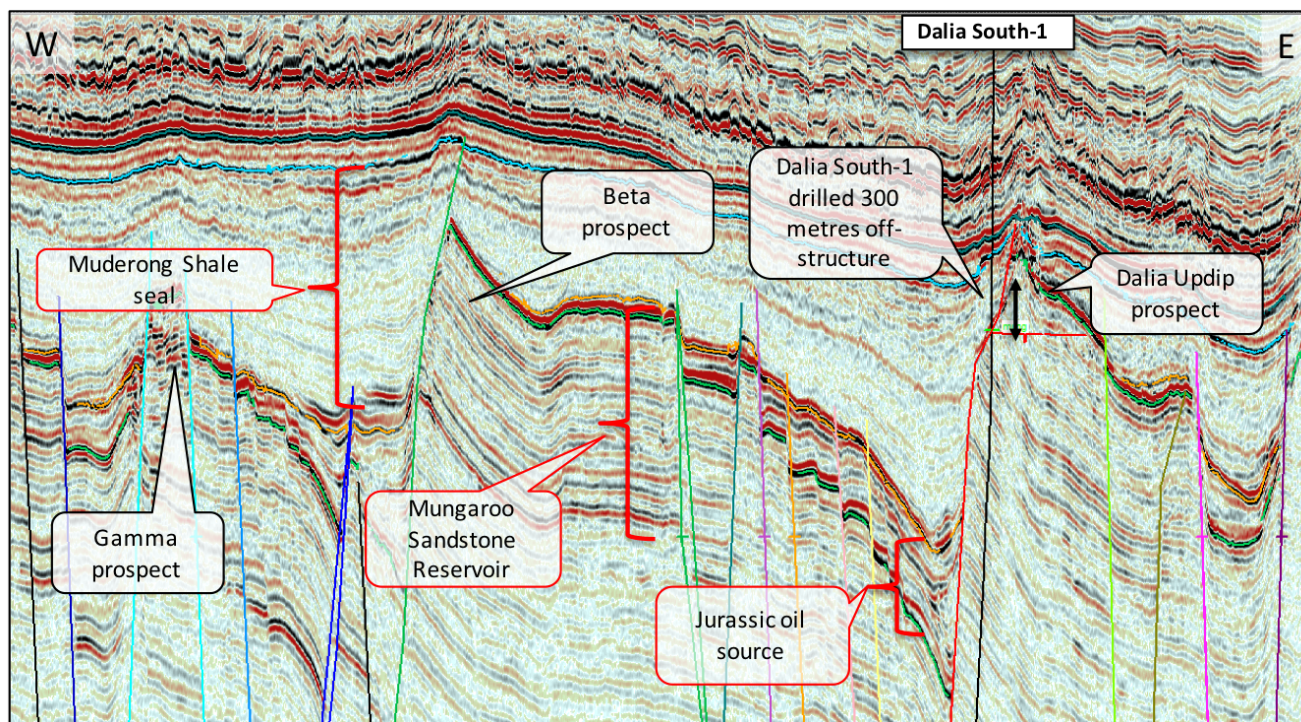


Figure: 3D Seismic Image Across Three Main WA-507-P Prospects (image shown courtesy of TGS Nopec)

The Company continues to market WA-507-P to potential farminees.

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 80km² 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.

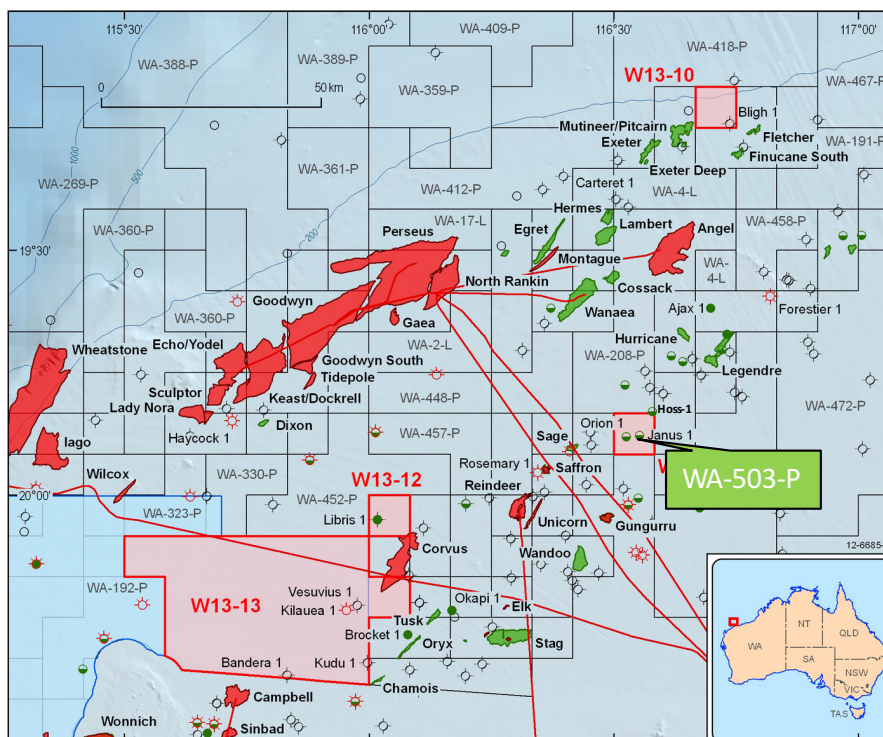


Figure: WA-503-P Location Map

Financial: Reconciliation of Expenditure

Exploration and evaluation expenditure for the period amounted to \$119,000, with administration expenditure of \$359,000. Cash as at 31 December 2016 was \$784,000.

Receivables (including the pending WA-507-P R&D refund) are approximately \$725,000, bringing the Company's total cash & receivables as at 31 December 2016 to some \$1,473,000.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 October 2016 to 31 December 2016.

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%

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")

31 DECEMBER 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(119)	(119)
(b) development	-	-
(c) production	-	-
(d) staff costs	(187)	(187)
(e) administration and corporate costs	(172)	(172)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	98	98
1.8 Other (see below)	-	-
1.9 Net cash from / (used in) operating activities	(377)	(377)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(10)	(10)
(b) tenements (see item 10)	(165)	(165)
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter	Year to date (3 months)
		\$A'000	\$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	(175)	(175)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
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)	(8)
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	(8)	(8)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,335	1,335
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(377)	(377)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(175)	(175)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(8)	(8)
4.5	Effect of movement in exchange rates on cash held	9	9
4.6	Cash and cash equivalents at end of period	784	784

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	784	1,335
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)	784	1,335

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
\$A'000**

177

-

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
\$A'000**

-

-

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Add notes as necessary for an understanding of the position</i>		
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	67
9.2 Development	-
9.3 Production	-
9.4 Staff costs	120
9.5 Administration and corporate costs	146
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	333

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	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: 25 January 2017

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.