

Announcement to ASX

29 October, 2015

## QUARTERLY ACTIVITIES REPORT & APPENDIX 5B

### QUARTERLY HIGHLIGHTS

- Independent expert confirms multi-million barrel oil potential in WA-507-P
- Farmin to Perth Basin exploration permits EP416 & EP480
- Settlement of Alaskan legal dispute with Royale Energy, and receipt of US\$150,000 initial payment
- Repayment of Alaskan ACES debt facility
- Transitional work program variation approved by NOPTA in WA-503-P
- Commissioned independent prospective resources estimate for WA-503-P

### 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. Subsequent to the reporting period, and as announced by the Company on 20 October 2015, Gaffney Cline & Associates (GCA) completed an independent estimate of prospective oil resources for the three exploration leads identified by Pilot Energy.

GCA estimate the gross prospective oil resources (on-block and recoverable) to be as follows:

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 follows (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 km<sup>2</sup> 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 km<sup>2</sup> to 280 km<sup>2</sup>.

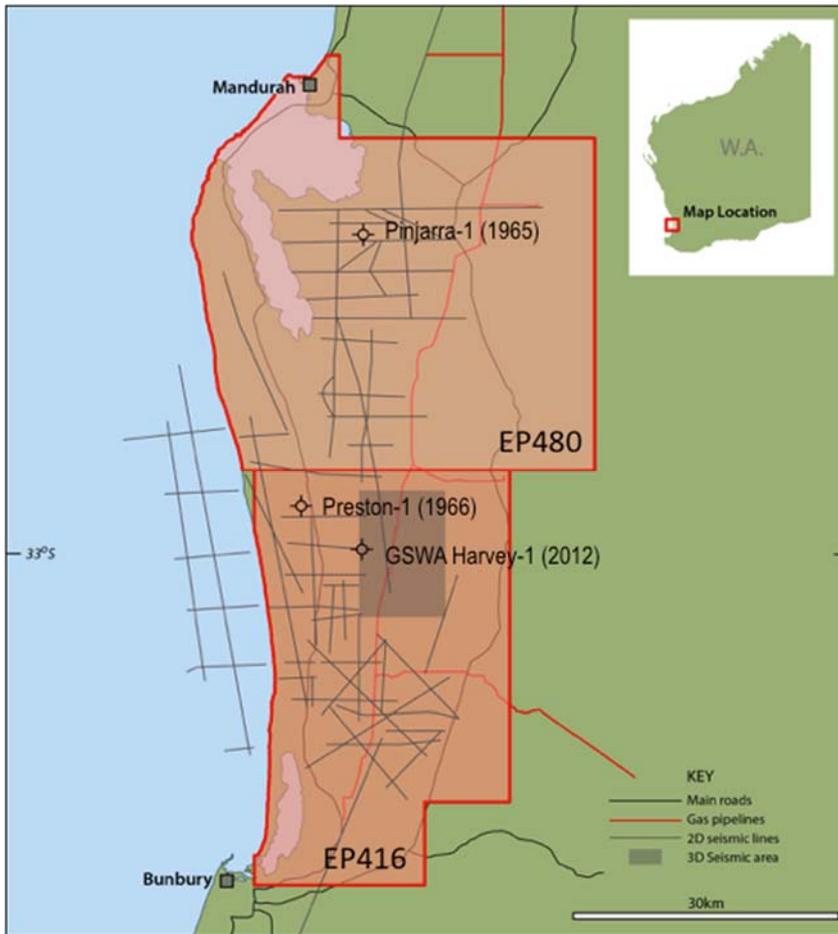
While WA-507-P is situated within a proven gas province, along trend from existing discoveries, regional well data and various studies support the case for an oil play within this part of the Exmouth Plateau. The Triassic Mungaroo source/reservoir interval in this area is believed to have been deposited 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.

### EP416 & EP480 Exploration Permits

As announced by the Company on 2 September 2015, Pilot Energy has executed an agreement with Empire Oil & Gas NL (“Empire”) to farm-in to the EP416 and EP480 exploration permits, situated within the 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 km<sup>2</sup>, 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.

Pilot Energy believes that these reservoirs may be gas bearing, and the available 2D seismic data reveals the presence of a 200km<sup>2</sup> structural prospect within the permits, for which Pilot Energy estimates significant prospective gas resources at the Sue Sandstone and Lesueur Sandstone levels, as follows:

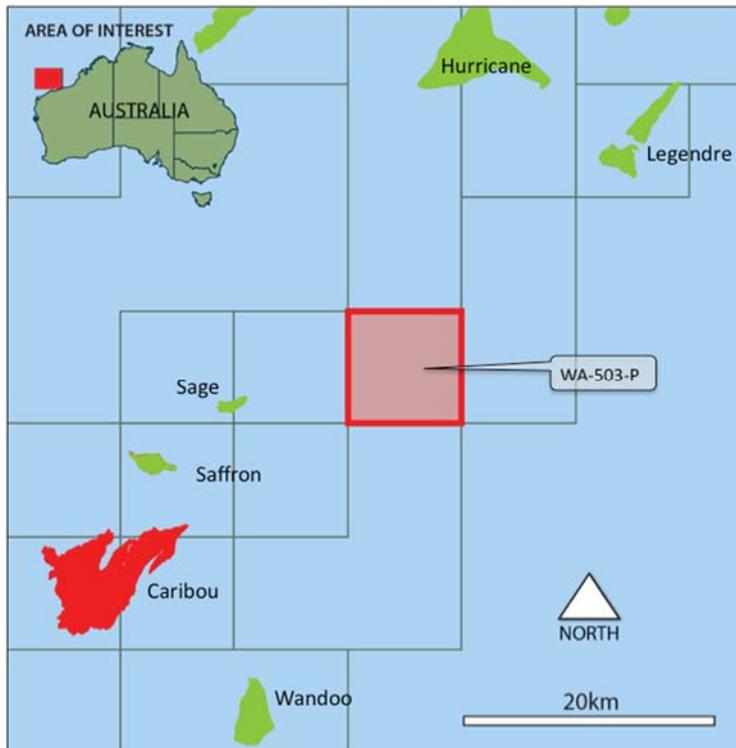
Target	Low Case (Bscf)	Best Case (Bscf)	High Case (Bscf)
Sue Sandstone	30	130	300
Lesueur Sandstone	60	140	300

Both the Sue and Lesueur reservoir targets could be drilled at the prospect location by a single well. The current work program on EP416 and EP480 is focused on interpretation of the airborne geophysical survey data, as acquired by Empire; the results of which will determine the Joint

Venture's future exploration work program, to be confirmed in Q1 2016.

### Australia: WA-503-P Exploration Permit

Pilot Energy holds an 80% working interest (as Operator) in exploration permit WA-503-P. During the reporting period the Company received confirmation of the approval of the National Offshore Petroleum Titles Administrator (NOPTA) to its application for a transitional work program variation. The effect of the variation is that Pilot Energy now has until May 2017 to complete the work commitments associated with the permit, being acquisition of 80km<sup>2</sup> of new "Broadband" 3D seismic and completion of various geological and geophysical studies.



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.

### Alaska

As announced by the Company on 28 September 2015, Pilot Energy has executed a Deed of Settlement and Mutual Release with Royale Energy Inc. in relation to the parties' dispute regarding the Western Block project, located North Slope Alaska. Closing of that agreement is now complete, and the parties have released each other from all current and future claims relating to the dispute.

Pilot Energy has assigned its 30% working interest in the Western Block leases to Royale Energy, and received an initial payment of US\$150,000. A further US\$350,000 may be payable to Pilot Energy, upon the earlier of:

- (i) Full or partial divestment of Royale Energy's interest in the Western Block leases to a third party, or;
- (ii) Drilling of a well on the Western Block lease, or;
- (iii) 31 December 2016, provided that Royale has not divested its interest in the Western Block by that time and elects to continue to solely fund exploration of the Western Block leases.

During the reporting period, the Company received the balance of the ACES rebates from the State of Alaska (pertaining to the Big Bend seismic program completed in early 2014) with payment of a US\$3.7 million Net Operating Loss credit. The ACES debt facility has now been repaid in full and the Company is free of debt. The Company received net funds from the Alaskan rebates which were more than sufficient to cover the legal and administrative costs accrued during defence of the Alaskan litigation and subsequent settlement.

## New Ventures

Pilot Energy has acquired a significant portfolio of four high quality exploration permits over the past 12 months. The Company's new ventures program remains active, and is focused on bringing in additional low cost-of-entry and low-commitment projects to the portfolio.

## Corporate Summary

### Financial: Reconciliation of expenditure

This is the final quarterly report for Pilot Energy Limited, for the year ending 30 September 2015.

Exploration and evaluation expenditure amounted to \$16,000. Administration expenditure amounted to \$754,000. Of this amount, some \$460,000 was due to payment of accrued legal and administrative costs (relating to the Alaskan dispute and the ACES debt facility). As explained above, the Company received net funds from the timely settlement of the ACES debt facility, which were sufficient cover these costs.

A further \$169,000 was paid during the reporting period to cover accrued director and consulting fees owing to the Board of Directors.

Cash as at 30 September 2015 was \$902,000. Subsequent to the reporting period the Company has paid \$150,000 to Empire Oil & Gas, as the initial payment relating to the EP416/480 farmin, and the Company has received US\$150,000 after closing of the settlement agreement with Royale Energy.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 July 2015 to 30 September 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% <sup>1</sup>
Western Block Project, North Slope Alaska USA	30%	0% <sup>2</sup>

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

<sup>2</sup> Further to closing of the Deed of Settlement between Pilot Energy and Royale Energy. Assignment of Pilot Energy's interest to Royale Energy remains subject to approval of the Alaskan regulatory authority.

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## Enquiries

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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")

30 SEPTEMBER 2015

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(16)	(453)
(b) development	-	-
(c) production	-	-
(d) administration	(754)	(1,374)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4	12
1.5 Interest and other costs of finance paid	(1,490)	(2,049)
1.6 Income taxes received / (paid)	-	-
1.7 Other –	-	(18)
<b>Net Operating Cash Flows</b>	<b>(2,256)</b>	<b>(3,882)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(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	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,256)</b>	<b>(3,882)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,256)	(3,882)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	867	868
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	558
1.17	Repayment of borrowings	(7,266)	(8,660)
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	(8)	(14)
	Other – Alaska tax credit	9,364	9,364
	<b>Net financing cash flows</b>	<b>2,957</b>	<b>2,116</b>
	<b>Net increase (decrease) in cash held</b>	<b>701</b>	<b>(1,766)</b>
1.20	Cash at beginning of quarter/year to date	180	2,629
1.21	Exchange rate adjustments to item 1.20	21	39
1.22	Cash at end of quarter *	902 *	902

\* Refer to note 1.25

**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	169
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.2(d) - Includes \$460,000 of legal and administrative expenses relating to the administration of the ACES debt facility and also the Alaskan litigation and settlement. Of this amount, \$420,000 was accrued at the end of the last quarter ending 30 June 2015;  
1.22 - US\$150,000 has been paid to the Company by Royale Energy subsequent to the reporting period, upon closing of the Alaskan Deed of Settlement & Mutual Release;  
1.23 - Includes salaries and consultancy fees paid to directors. Of this amount, \$128,000 was accrued at the end of the last quarter ending 30 June 2015;  
1.5, 1.17 and 1.19 – Alaskan tax credits received from allowable exploration expenditure incurred by the Group's USA subsidiary, were used to repay an ACES funding facility plus accrued interest.

**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

+ See chapter 19 for defined terms.

### 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	53
4.2 Development	-
4.3 Production	-
4.4 Administration	201
<b>Total</b>	<b>254</b>

### 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	902	180
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>902</b>	<b>180</b>

+ See chapter 19 for defined terms.

**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			
6.2	Interests in mining tenements acquired or increased	EP 416/480	0%	60% *

\* Pending approval of assignment from Empire Oil and Gas, by the regulatory authority

**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 **	1,585,476,834	1,585,476,834	N/A
7.4	Changes during quarter (a) Increases through issues *  (b) Decreases through returns of capital, buy-backs	1,056,984,557	1,056,984,557	0.1 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

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.7	<b>Options</b> <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
		105,000,000	-	0.2 cents	30 June 2019
	<b>Performance rights</b>	45,000,000	-		30 June 2018
7.8	Issued during quarter	105,000,000	-	0.2 cents	30 June 2019
7.9	Exercised during quarter	N/A	N/A	N/A	N/A
7.10	Expired during quarter	1,566,679	-	60 cents	10 August 2015
7.11	<b>Debentures</b> <i>(totals only)</i>	Nil	N/A		
7.12	<b>Unsecured notes</b> <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: 29 October 2015

Print name: David M McArthur

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+ See chapter 19 for defined terms.

## **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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