

29th April, 2022

Pilot Energy Ltd

Cliff Head deal opens the pathway to CCS project

Pilot Energy Ltd (ASX:PGY) is a junior oil and gas exploration company transitioning towards the new industry paradigm – renewable energy. The company has completed feasibility studies over its renewable and carbon capture options at the Mid-West Project in Western Australia. Broad capital and operating assumptions confirm a valid economic pathway with next steps including various regulatory approvals and declarations. PGY has now moved quickly into implementation with the formal restructuring of the Cliff Head JV [with Triangle Energy (ASX:TEG.)] underpinning the proposed Cliff Head Carbon Capture-Storage Project (CH CCS). By mid-2022, PGY anticipates lodging the initial application for the grant of a Greenhouse Gas Injection Licence for 500kt CO₂ pa commencing in 2025. To facilitate this, the CH JV has also progressed a new off-take arrangement for CH crude oil enabling a blowdown of the remaining production potential as a precursor to CCS operations. The price of Australian Carbon Credit Units is projected to range between A\$40-50/t by 2025, potentially rising to over A\$100/t by 2030. Pilot is pursuing an integrated renewables/hydrogen opportunity by leveraging its oil production infrastructure and tenements, with multiple commercial outcomes, whilst providing carbon capture and storage as an enabler for the production of low-cost clean blue hydrogen at an estimated cost of ~A\$2.00/kg. The company has existing oil production with growth potential and a Tcf-scale gas play coincident with its South-West Project. Although the renewables plays are early stage, the value proposition is beginning to crystallise. The next 12 months presents an opportunity to deliver a material re-rating on the expectation of successful results.

Business model

Pilot Energy is a junior oil and gas company transitioning to a sustainable renewables energy play with a portfolio of potential development opportunities. The current strategy is to pursue the transformational growth potential of its renewables and carbon capture options through its Mid-West (and South-West) project proposal, which are now moving into a definition phase. The company aims to leverage its acreage and infrastructure base to underpin an integrated renewable energy, carbon capture and hydrogen generation platform, with resultant diversified revenue streams. Financing for the renewable and other downstream opportunities could be provided partly through partnering.

Ticking boxes and moving forward, a big 12 months to come

The completion of feasibility studies for the renewable energy/hydrogen technology projects confirms the integrated economic potential of the company's ambitious and potentially transformative development opportunities. Next steps are to navigate the numerous permitting and approvals processes and better define the financial parameters through a formal FEED undertaking. We highlight important steps already delivered with the restructuring and resolution of new off-take agreements for the Cliff Head JV as a precursor to commencing carbon capture operations in 2025. The integrated project could potentially move into a demonstration (pilot) phase in early 2023 for Mid-West Wind and Solar Project options. Feasibility studies are also under way on the South-West Project which are likely to be followed by the drilling of the Tcf-scale Leschenault gas prospect before end-CY22. There is the potential for a material de-risking across the portfolio across the next 12 months with success cases providing the platform for financing and formal partnering arrangements.

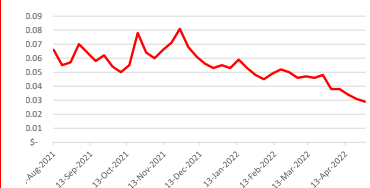
Our valuation stands at \$0.26/share (\$131mn)

We assign a riskied valuation of \$131mn (**\$0.26/share**) to the portfolio against a reference share price of \$0.032/share. We note the renewables and carbon capture options are still early-stage and remain subject to significant change through continuing evaluation processes, which should be completed by end-CY22. The move to pilot/demonstration operations should provide a tangible NAV-based valuation platform.

Share details

ASX code	PGY
Share price (28-Apr)	\$0.03
Market capitalisation	\$15.1M
Shares on issue	504.4M
Net cash (31-Mar-22)	\$2.44M

Share Price Performance (from Aug-21)



Upside Case

- Delivery of required approvals and declarations underpinning the carbon capture options and de-risking the commercial case for the South-West projects
- Further commodity price (oil) upside
- Above-expectation production rates at Cliff Head driving strong net operating cashflows

Downside Case

- Delays in the approvals processes slowing progress on renewable energy development options
- Potential equity financing becomes highly dilutive to per-share growth opportunities
- Commodity (oil) prices retrace historical lows

Board of Directors

Brad Lingo	Executive Chairman
Tony Strasser	Managing Director /CEO
Bruce Gordon	Non-Executive Director
Daniel Chen	Non-Executive Director

Company Contact

Brad Lingo (Exec Chair)	+61 408 601 080
blingo@pilotenergy.com.au	

RaaS Advisory Contacts

Andrew Williams	+61 417 880 680
andrew.williams@raasgroup.com	
Finola Burke*	+61 414 354 712
finola.burke@raasgroup.com	

*The analyst holds shares

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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