

5th July 2022

Pilot Energy Ltd

Small steps bringing the Mid-West Clean Energy Project closer

Pilot Energy Ltd (ASX:PGY) is a junior oil and gas exploration company transitioning towards the new industry paradigm – clean and renewable energy. The company is now looking to further progress its renewable and carbon capture options at the Mid-West Clean Energy Project (MWCE) in Western Australia, having completed feasibility studies which confirm a valid economic pathway. The company is pursuing next steps across multiple facets of the MWCE Project having already restructured the Cliff Head JV and commenced the process for regulatory approvals of the proposed Cliff Head Carbon Capture-Storage Project (CH CCS). Concomitant with this, PGY has secured a MOU with 8 Rivers Capital, totalling some \$1mn of cash and carry to begin the implementation of the engineering and commercialisation of the blue hydrogen-clean ammonia downstream stages of the integrated projects. As part of the MOU, 8 Rivers will receive a priority off-take option over ammonia on start-up of operations. The project is advancing with the conversion of the Cliff Head oil project to a carbon capture and storage project by 2025, providing a clear and strategic first-mover advantage for the delivery of low-cost, clean blue hydrogen and ammonia for large-scale export. Adding wind and solar power generation opportunities closes the loop as an integrated clean energy provider. Although still early stage, the 8 Rivers MOU demonstrates how the value proposition is crystallising. There is a portfolio of potential, likely worth more than the sum of the parts, and the remainder of 2022, in particular, could support a material re-rating on the expectation of a success-case outcome.

Business model

Pilot Energy is a junior oil and gas company transitioning to a sustainable clean energy play with a portfolio of potential development opportunities. The current strategy is to pursue the transformational growth potential of its carbon capture and clean energy (hydrogen and ammonia generation) options through its Mid-West (and South-West) projects, having determined their economic viability. The company is well positioned to leverage its acreage and infrastructure base to deliver an integrated project with diversified revenue streams. Financing for the initial phase could be provided through the accelerated production of its remaining crude oil reserves and the initial CCS phase. We would also highlight the partnering potential to prove third-party capital and arms-length validation.

Another tick in another box - a big 12 months unfolding

Securing a MOU with 8 Rivers Capital is another important step towards commercialising the MWCE Project underpinning critical next steps towards the development of the clean energy (blue hydrogen and clean ammonia) stages. 8 Rivers will be focussing on detailed engineering and commercial evaluation on a pre-FEED basis and will invest A\$1mn in cash and carry to that end. As part of the MOU, 8 Rivers has been granted a priority off-take option for an initial tranche of clean ammonia of up to 172.5kt pa on market terms and conditions at start-up, currently expected around 2027. Work under the MOU is expected to commence shortly and be completed in Q123; and run in parallel with on-going regulatory submissions related to the Cliff Head CCS Project. We see the potential for a material de-risking across the portfolio across the next 12 months with success cases providing the platform for financing and potentially further partnering arrangements.

The value is crystallising

Early-stage projects are subject to potentially significant change through the evaluation and construction processes, and attributing values remains a subjective exercise, particularly when timing and financing are somewhat uncertain. We assign a risked valuation of \$134mn (26cps) to the portfolio against a reference share price of 2.0cps. Our valuation should be considered within that context and with the commensurate risk overlay.

Share Details

ASX code	PGY
Share price (4-July)	\$0.02
Market capitalisation	\$10.1M
Shares on issue	504.4M
Net cash (31-Mar)	\$3.0M

Share Price Performance (12 months)



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 CCS and clean energy development options
- Weaker oil cash flows resulting in potentially dilutive equity financing requirements
- 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

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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