

**Pilot Energy Ltd**  
ABN 86 115229 984  
Level 2, 55 Carrington Street  
Nedlands WA 6009 Australia  
T: +61 9423 3200



**Announcement to ASX**

**24 May 2016**

## **Dispatch of Notice of General Meeting**

Attached is copy of a Notice of General Meeting, Explanatory Memorandum and Proxy Form together with accompanying Independent Expert's Report for a General Meeting of shareholders to be held on Tuesday, 23 June 2016. This information has been dispatched to shareholders today.

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### **Enquiries**

Iain Smith, Managing Director, Tel: +61 412 638019, email: [ismith@pilotenergy.com.au](mailto:ismith@pilotenergy.com.au)

# **PILOT ENERGY LIMITED**

ACN 115 229 984

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## **NOTICE OF GENERAL MEETING**

### **PROXY FORM**

**AND**

### **EXPLANATORY STATEMENT**

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*Date of Meeting*

**Thursday, 23 June 2016**

*Time of Meeting*

**10.00 am (WST)**

*Place of Meeting*

**Level 2, 55 Carrington Street  
Nedlands, Western Australia**

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# PILOT ENERGY LIMITED

ACN 115 229 984

## NOTICE OF GENERAL MEETING

Notice is hereby given that a Meeting of Shareholders of Pilot Energy Limited (**Company**) will be held at 10.00 am (WST) on Thursday, 23 June 2016, at Level 2, 55 Carrington Street, Nedlands, Western Australia.

In order to determine voting entitlements, the register of Shareholders will be closed at 5.00pm (WST) on 21 June 2016.

An Explanatory Statement containing information in relation to each of the Resolutions to be put to the meeting accompanies this Notice.

### AGENDA

To consider and, if thought fit, to pass the following Resolutions.

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#### **Ordinary Resolution 1: Ratification of issue of Shares – Tranche 1 Placement**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Company ratifies the allotment and issue of 400,000,000 fully paid ordinary Shares on the terms set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 1 by any persons who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the proxy form or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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#### **Ordinary Resolution 2: Approval of issue of New Shares – Tranche 2 Placement**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of Section 611 (Item 7) of the Corporations Act 2001 (Cth) (**Corporations Act**), ASX Listing Rule 11.1.2 and for all other purposes, approval is given for each of the Subscribers and Principals to acquire a relevant interest in the Company's voting Shares (and resulting voting power) of up to 45.37% through the subscription for 933,340,000 Shares in aggregate by the Subscribers, under the terms and conditions of the SSA in consideration for an investment of \$2,800,020 and subject to the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on Resolution 2 by the Subscribers, the Principals and any of their associates or any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed. However the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**Independent Expert's Report:** The Company engaged BDO Corporate Finance (WA) Pty Ltd (**Independent Expert**) to provide the Independent Expert's Report in respect of the transaction the subject of Resolution 2. Shareholders should carefully consider the Independent Expert's Report prepared for the purposes of the Shareholder approval required under Section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction that is the subject of Resolution 2 to Shareholders who are not associated with the Subscribers. A copy of the Independent Expert's Report is attached as Annexure A to the Explanatory Statement accompanying this Notice.

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### **Ordinary Resolution 3: Cancellation of Existing Options – Gavin Harper**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 6.23.2 and sections 195(4) of the Corporations Act and for all other purposes, approval is given for the Company to pay \$20,000 to Mr Gavin Harper in consideration for the cancellation of 20,000,000 Existing Options currently held by Mr Harper on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 3 by Mr Harper, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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### **Ordinary Resolution 4: Cancellation of Existing Options – Iain Smith**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 6.23.2 and section 195(4) of the Corporations Act and for all other purposes, approval is given for the Company to pay \$20,000 to Mr Iain Smith in consideration for the cancellation of 20,000,000 Existing Options currently held by Mr Smith on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution by Mr Smith, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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### **Ordinary Resolution 5: Cancellation of Existing Options – Conrad Todd**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 6.23.2 and section 195(4) of the Corporations Act and for all other purposes, approval is given for the Company to pay \$20,000 to Mr Conrad Todd in consideration for the cancellation of 20,000,000 Existing Options currently held by Mr Todd on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 5 by Mr Todd, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**Ordinary Resolution 6: Cancellation of Existing Options – Rory McGoldrick**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 6.23.2 and section 195(4) of the Corporations Act and for all other purposes, approval is given for the Company to pay \$20,000 to Mr Rory McGoldrick in consideration for the cancellation of 20,000,000 Existing Options currently held by Mr McGoldrick on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 6 by Mr McGoldrick, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**Ordinary Resolution 7: Issue of New Options to Related Party – Gavin Harper**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, conditional on Resolution 3 being approved by Shareholders, and for the purpose of ASX Listing Rule 10.11, sections 195(4) and 208 of the Corporations Act and for all other purposes, approval is given for the Directors to issue 20,000,000 New Options to Mr Gavin Harper (or his nominee) on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 7 by Mr Harper, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
  - (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.
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## **Ordinary Resolution 8: Issue of New Options to Related Party – Iain Smith**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, conditional on Resolution 4 being approved by Shareholders, and for the purpose of ASX Listing Rule 10.11, sections 195(4) and 208 of the Corporations Act and for all other purposes, approval is given for the Directors to issue 20,000,000 New Options to Mr Iain Smith (or his nominee) on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 8 by Mr Smith, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### **Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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## **Ordinary Resolution 9: Issue of New Options to Related Party – Conrad Todd**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, conditional on Resolution 5 being approved by Shareholders, and for the purpose of ASX Listing Rule 10.11, sections 195(4) and 208 of the Corporations Act and for all other purposes, approval is given for the Directors to issue 20,000,000 New Options to Mr Conrad Todd (or his nominee) on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 9 by Mr Todd, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### **Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or

- (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
  - (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.
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#### **Ordinary Resolution 10: Issue of New Options to Related Party – Rory McGoldrick**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, conditional on Resolution 6 being approved by Shareholders, and for the purpose of ASX Listing Rule 10.11, sections 195(4) and 208 of the Corporations Act and for all other purposes, approval is given for the Directors to issue 20,000,000 New Options to Mr Rory McGoldrick (or his nominee) on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 10 by Mr McGoldrick, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Voting Prohibition Statement:** A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
  - (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.
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#### **Ordinary Resolution 11: Issue of New Options to Related Party – Tung Leung (Benson) Wong**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 10.11, sections 195(4) and 208 of the Corporations Act and for all other purposes, approval is given for the Directors to issue 20,000,000 New Options to Mr Tung Leung (Benson) Wong (or his nominee) on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 11 by Mr Wong, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or

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it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Voting Prohibition Statement:** A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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### **Ordinary Resolution 12: Issue of New Options to Related Party – Hui Xiong (Wilson) Xue**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, subject to the passing of all other resolutions, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue 20,000,000 New Options to Mr Hui Xiong (Wilson) Xue or his nominee, on terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution by Mr Xue, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Voting Prohibition Statement:** A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**Ordinary Resolution 13: Issue of New Options to Related Party – Xingjin Wang**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, subject to the passing of all other resolutions, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue 20,000,000 New Options to Dr Xingjin Wang or his nominee, on terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 13 by Dr Wang, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Voting Prohibition Statement:** A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**By Order of the Board**



D M McARTHUR  
**Company Secretary**

Dated: 5 May 2016

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## **ENTITLEMENT TO ATTEND AND VOTE**

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The Company may specify a time, not more than 48 hours before the Meeting, at which a “snap-shot” of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the General Meeting.

The Company’s Directors have determined that all Shares of the Company that are quoted on ASX at 5:00pm (WST) on 21 June 2016 shall, for the purposes of determining voting entitlements at the General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

### **PROXIES**

Please note that:

- (a) a member of the Company entitled to attend and vote at the General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company; and
- (c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- (a) if proxy holders vote, they must cast all directed proxies as directed; and
- (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

### **CORPORATE REPRESENTATIVE**

A Shareholder that is a corporation may appoint an individual to act as its corporate representative to vote at the Meeting in accordance with section 250D of the Corporations Act. Any corporation wishing to appoint an individual to act as its representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company’s representative. The authority may be sent to the Company and/or Share Registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative. A ‘Certificate of Appointment of Corporate Representative’ is enclosed if required.

### **ENQUIRIES**

Shareholders are invited to contact the Company Secretary, David McArthur on +61 8 9423 3200 if they have any queries in respect of the matters set out in this document.

# PILOT ENERGY LIMITED

ACN 115 229 984

## EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of General Meeting (**Notice**) of the Company.

The Directors of the Company recommend Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

The following information should be noted in respect of the various matters contained in the accompanying Notice.

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### 1. ORDINARY RESOLUTION 1: Ratification of issue of Shares – Tranche 1 Placement

#### 1.1 General

As announced to ASX on 31 March 2016, the Company entered into a Share Subscription Agreement (**SSA**) with a group of investors (**Subscribers**) to raise, through the issue of Shares, \$3,600,020, before costs of the issue. The issue of Shares under the SSA will be completed in two tranches.

On 26 April 2016, the Company issued 400,000,000 Shares at \$0.002 per Share to the Subscribers to raise \$800,000 (**Tranche 1 Placement**). Subject to the passing of Resolution 2, the Company will issue a further 933,340,000 Shares (**New Shares**) at \$0.003 per Share to the Subscribers to raise \$2,800,020 (**Tranche 2 Placement**).

This Resolution 1 seeks to ratify the issue of Shares under the Tranche 1 Placement.

#### 1.2 About the Subscribers

##### (a) Overview

The Subscribers under the SSA are comprised of the following four Australian and Hong Kong private companies which have a joint purpose of investing in Australian oil and gas businesses.

Party	Country of incorporation	Principals
Billion Power Capital Investment Limited	Hong Kong	Hui Xiong (Wilson) Xue Zhihong Huang
Sunpex International Limited	Hong Kong	Tung Leung (Benson) Wong Shaoling Wang
GS Energy Pty Ltd	Australia	Lu Chen
Austar Nominees Pty Ltd <sup>1</sup>	Australia	Dr Xingjin Wang Qingyuan Li

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<sup>1</sup> In its capacity as trustee for The Wang Family Trust

The Company has been informed that the Subscribers are ultimately controlled by the Principals as set out in the above table, as sole or jointly controlling directors or shareholders.

(b) **Relationship between the Subscribers**

The Subscribers and the key Principals (refer section 1.2(c) below) have had a working relationship for a number of years. Prior to entering into the SSA with the Company, the Subscribers had made joint investments in Australian businesses and had together considered a number of investment opportunities. The Subscribers collectively negotiated their investment in the Company and, notwithstanding that each are individual Shareholders, they intend to exercise their rights as Shareholders in consultation with each other. Shortly after completion of the Tranche 1 Placement, the Subscribers entered into a co-operation agreement which provides a framework as to how each of them will exercise their rights as Shareholders (**Co-operation Agreement**).

The Subscribers are deemed to be “associates” of each other by operation of section 12(1)(a) and sections 12(2)(b) and (c) of the Corporations Act. This is on the basis that the Subscribers are party to a relevant agreement for the purposes of section 12(2)(b) of the Corporations Act, being the Co-operation Agreement, and separately the Subscribers propose to act in concert in relation to their investment in the Company.

Under the terms of the Co-operation Agreement a representative of each Subscriber will be appointed to a committee. The main purpose of the committee is to allow the Subscribers to consult with one another on how they will exercise their rights as Shareholders. The Co-operation Agreement affords each Subscriber the flexibility to vote independently if they wish to do so, and decisions of the committee will be by simple majority.

The Subscribers acknowledge in the Co-operation Agreement that to the extent permitted by applicable law, a person nominated by the Subscribers and appointed to the board to the Company (as is contemplated by the SSA) may consider, and act in, the interests of the Subscribers, collectively, in performing his or her duties or exercising any power, right or discretion as a director of the Company.

In addition, the Co-operation Agreement contains a regime dealing with the ability of a Subscriber to dispose of its Shares in the Company. A Subscriber wishing to dispose of any Shares it holds (**Selling Subscriber**) is first required to offer those shares to the other Subscribers. The other Subscribers may, but are not obliged, to purchase those Shares. Any Shares not acquired by the other Subscribers may then be sold by the Selling Subscriber to a third party. The exercise of the Selling Subscribers rights are subject to applicable laws, the Company’s constitution, the Corporations Act and the ASX listing rules.

(c) **Key Principals**

The key Principals, who are all Australian citizens, are as follows:

**Mr Tung Leung (Benson) Wong** (appointed as an Executive Director and the Chief Financial Officer of the Company on 28 April 2016) is a management finance specialist with 14 years’ senior managerial experience and over six years’ experience in director roles, including as Executive Director of China Flexible Packaging Holdings Limited, an SGX-listed company. In this role, he was responsible for the overall administrative, human resources and finances of the group. Mr Wong holds a Masters Degree in Commerce from the University of New South Wales, and is an Associate Member of

CPA Australia. Mr Wong's finance credentials and international contacts will be highly valuable to the Company in further developing the business.

**Mr Hui Xiong (Wilson) Xue** (proposed Non-Executive Director) is an entrepreneur and businessman with 25 years of senior management experience. Mr Xue has an impressive record of establishing and growing new businesses, with interests including manufacturing, wholesale, retail, construction and resources. Key to Mr Xue's business approach is to back strong management teams. In addition to Mr Xue's business acumen, his extensive international contacts will benefit the Company as the Company implements its growth strategy.

**Dr Xingjin Wang** (proposed Advisor) is a petroleum engineer with more than 25 years of international experience in petroleum exploration and production. He is an Honorary Professor at the University of Queensland and Professor at the China University of Geoscience. Dr Wang has extensive experience in the petroleum basins of Australia, and previously held senior management positions with Arrow Energy. More recently, Dr Wang has provided consulting services to a number of companies in the areas of asset evaluation and petroleum engineering, through his company Austar Gas Pty Ltd; experience that complements the skills of the Company's existing team. Dr Wang holds a PhD in Applied Geology from the University of New South Wales.

The key Principals of the Subscribers have primary responsibility for the conduct of the day-to-day affairs of these private companies.

Each Principal is deemed to be an "associate" of the Subscriber they control (either individually or jointly) by operation of section 12(1)(a) and section 12(2)(c) of the Corporations Act.

### 1.3 Ratification of issue of Shares – Tranche 1 Placement

ASX Listing Rule 7.1 provides that the Company must not issue or agree to issue, subject to specified exceptions, during any 12 month period any equity securities which, when aggregated with the number of other securities issued within that 12 month period, exceeds 15% of the number of ordinary shares on issue at the beginning of that 12 month period, unless the issue falls within one of the nominated exceptions, or the prior approval of members of the Company at a general meeting is obtained.

ASX Listing Rule 7.1A provides that the Company can issue a further 10% of the number of ordinary shares at the beginning of the 12 month period under Listing Rule 7.1.

The Tranche 1 Placement was made as follows:

Listing Rule 7.1 - 240,821,525 Shares

Listing Rule 7.1A- 159,178,475 Shares Listing Rule 7.4 provides that an issue made within the 15% limit or the 10% limit will be treated as having been made with the approval of shareholders under Listing Rule 7.1 and Listing Rule 7.1A if subsequently approved by shareholders, thereby 'refreshing' the company's ability to issue shares within the 15% limit and the 10% limit, respectively, and restoring the company's ability to make placements within those limits (if that is thought desirable) without the need for shareholder approval.

While the Shares described in this Resolution 1 have been issued within the 15% limit and the 10% limit, the Company seeks Shareholder ratification of the issue of those Shares for the purpose of Listing Rule 7.4 so that the Company's ability to issue securities will be refreshed and it will have the flexibility to issue further securities should the need or opportunity arise.

In accordance with the requirements of Listing Rule 7.5, the following information is provided to Shareholders to allow them to assess the ratification of the issue of the Shares under the Tranche 1 Placement, the subject of this Resolution 1:

- (a) the total number of Shares issued by the Company was 400,000,000;

- (b) the Shares were issued for \$0.002 per Share;
- (c) the Shares issued rank pari passu with the Company's existing Shares;
- (d) the Shares were issued to the Subscribers as follows:

Shareholder	Shares issued pursuant to Listing Rule 7.1	Shares issued pursuant to Listing Rule 7.1A
Billion Power Capital Investment Limited	111,120,000	-
Sunpex International Limited	55,560,000	-
GS Energy Pty Ltd	74,141,525	148,098,475
Austar Nominees Pty Ltd <sup>2</sup>	-	11,080,000
<b>Total</b>	<b>240,821,525</b>	<b>159,178,475</b>

- (e) the funds raised under the Tranche 1 Placement will be used for working capital purposes; and
- (f) a voting exclusion statement for Resolution 1 is included in the Notice of General Meeting preceding this Explanatory Statement.

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## 2. ORDINARY RESOLUTION 2 - Approval of issue of New Shares – Tranche 2 Placement

### 2.1 General

Resolution 2 seeks Shareholder approval for the purposes of Item 7 of Section 611 of the Corporations Act and ASX Listing Rule 11.1.2 to allow each of the Subscribers and the Principals to acquire a relevant interest and voting power in a further 933,340,000 New Shares on the terms and in the manner specified in this Explanatory Statement. The issue of the New Shares to the Subscribers will result in each Subscriber's and Principal's aggregate voting power in the Company increasing from 19.95% to 45.37%. One Subscriber, GS Energy Pty Ltd, will increase its relevant interest alone to 25.21%<sup>3</sup>.

### 2.2 ASX Listing Rule 11.1.2 – Proposed change to nature or scale of activities

Pursuant to ASX Listing Rule 11.1.2 if a company proposes to make a significant change to the nature or scale of its activities, ASX may require the company to obtain shareholder approval for that change. Following execution of the SSA with the Subscribers, the Company considers that the Tranche 2 Placement will result in a significant change to the scale of the Company and, accordingly, the Company is seeking the approval of Shareholders at a general meeting. Resolution 2 seeks that approval. As required by Listing Rule 11.1.2, a voting exclusion statement for Resolution 2 is included in the Notice of General Meeting preceding this Explanatory Statement.

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<sup>2</sup> In its capacity as trustee for The Wang Family Trust

<sup>3</sup> Note that, in contrast to the assumptions adopted by the Company for its calculations, the Independent Expert in the Independent Expert's Report at Annexure A has assumed that all of the 32,500,000 'in the money' options (and assuming the cancellation of the Existing Options) exercisable at \$0.002 that have a vesting condition that requires the 5 day VWAP of the Company's shares to equal or exceed \$0.003 will be exercised and therefore on its calculations the aggregate voting power of the Subscribers and Principals will be 44.87% and GE Energy Pty Ltd alone will be 24.93%.

## 2.3 Item 7 of Section 611 of the Corporations Act

### (a) Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% and below 90%,

**(Prohibition).**

### (b) Voting power

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

### (c) The Subscribers' entitlements in the Company

As a result of the Tranche 1 Placement, the Subscribers currently hold, in aggregate, 400,000,000 Shares in the Company, representing 19.95% of the issued share capital of the Company as at the date of this Notice.

<b>Party</b>	<b>Shares held in its own name as at the date of this Notice</b>	<b>Voting power attached to these Shares as at the date of this Notice</b>
Billion Power Capital Investment Limited	111,120,000	5.54%
Sunpex International Limited	55,560,000	2.77%
GS Energy Pty Ltd	222,240,000	11.08%
Austar Nominees Pty Ltd <sup>4</sup>	11,080,000	0.55%
<b>Total</b>	<b>400,000,000</b>	<b>19.95%</b>

### (d) Holdings of the Subscribers following the issue of New Shares

Subject to Shareholders approving Resolution 2 and completion of the Tranche 2 Placement occurring under the SSA, following the issue of the New Shares, the voting power attached to those Shares registered in the name of each Subscriber in the Company will be as follows:

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<sup>4</sup> In its capacity as trustee for The Wang Family Trust



<b>Party</b>	<b>New Shares proposed to be issued</b>	<b>Shares to be held in its own name after issue of New Shares</b>	<b>Voting power attached to Shares after issue of New Shares</b>
Billion Power Capital Investment Limited	259,260,000	370,380,000	12.60%
Sunpex International Limited	129,627,000	185,187,000	6.30%
GS Energy Pty Ltd	518,507,000	740,747,000	25.21%
Austar Nominees Pty Ltd <sup>5</sup>	25,946,000	37,026,000	1.26%
<b>Total</b>	<b>933,340,000</b>	<b>1,333,340,000</b>	<b>45.37%</b>

Note that the assumptions set out in section 2.5(b)(iii) below have been made in calculating the voting power attached to the New Shares.

(e) **Associates**

For the purposes of determining voting power under the Corporations Act, a person (second person) is an “associate” of the other person (first person) if:

- (i) (pursuant to section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
  - (A) a body corporate the first person controls;
  - (B) a body corporate that controls the first person; or
  - (C) a body corporate that is controlled by an entity that controls the person;
- (ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company’s board or the conduct of the company’s affairs; or
- (iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company’s affairs.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company’s business affairs, or acts in concert with a person in relation to the entity’s business affairs.

The Subscribers are considered associates of each other pursuant to section 12 of the Corporations Act. Each Principal is considered an “associate” of the Subscriber they control (either individually or jointly) by operation of section 12 of the Corporations Act. Further detail in relation to the arrangements between the Subscribers is set out in section 1.2.

(f) **Relevant interests**

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (i) are the holder of the securities;

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<sup>5</sup> In its capacity as trustee for The Wang Family Trust

- (ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (i) a body corporate in which the person's voting power is above 20%;
- (ii) a body corporate that the person controls.

(g) **Associates of the Subscribers**

The Subscribers are comprised of the four private companies listed above in section 1.2.

The key Principals behind the Subscribers, who are all Australian citizens, are Mr Tung Leung (Benson) Wong, Dr Xingjin Wang, and Mr Hui Xiong (Wilson) Xue. The other Principals are listed above in section 1.2.

As at the date of this Notice, no other associates of the Subscribers have a relevant interest in the Company except as otherwise disclosed in this Notice.

(h) **Control**

The Corporations Act defines "control" and "relevant agreement" very broadly as follows:

- (i) under section 50AA of the Corporations Act, control means the capacity to determine the outcome of decisions about the financial and operating policies of the Company; and
- (ii) under section 9 of the Corporations Act, a relevant agreement includes an agreement, arrangement or understanding whether written or oral, formal or informal and whether or not having legal or equitable force.

(i) **Agreements and options in relation to shares**

Section 608(8) of the Corporations Act states that if at a particular time all the following conditions are satisfied:

- (i) a person has a relevant interest in issued securities;
- (ii) the person (whether before or after acquiring the relevant interest):
  - (A) has entered or enters into an agreement with another person with respect to the securities; or
  - (B) has given or gives another person an enforceable right, or has been or is given an enforceable right by another person, in relation to the securities (whether the right is enforceable presently or in the future and whether or not on the fulfilment of a condition); or
  - (C) has granted or grants an option to, or has been or is granted an option by, another person with respect to the securities;

- (iii) the other person would have a relevant interest in the securities if the agreement were performed, the right enforced or the option exercised,

the other person is taken to already have a relevant interest in the securities. The Corporations Act does however provide that there are certain specific situations where entry into an agreement in relation to securities will not give rise to a relevant interest in securities, as explained further in 2.3(j) below.

(j) **Effect of Sections 608(8) and section 609(7) of the Corporations Act on the issue of New Shares**

Section 609(7) of the Corporations Act provides that a person does not have a relevant interest in securities merely because of an agreement if the agreement is, among other things, conditional on a resolution of members being passed under item 7 of Section 611 of the Corporations Act. Section 609(7) also states that the person acquires a relevant interest in the securities when the condition in section 609(7)(a), being member approval, is satisfied.

Although the SSA was executed on 30 March 2016, a condition precedent under the SSA to the issue of the New Shares under the Tranche 2 Placement is that the Shareholders have approved the issue of the New Shares. Therefore, the effect of sections 608(8) and 609(7) of the Corporations Act on the proposed issue of New Shares to the Subscribers is that the acquisition of the relevant interest in the New Shares by the Subscribers will not occur until Shareholder approval has been obtained, and the New Shares the subject of Resolution 2 have been issued.

#### **2.4 Reason Section 611 Shareholder approval is required**

Item 7 of Section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

If the Shareholders pass Resolution 2, the Company will issue the New Shares to the Subscribers and the Subscribers will have a relevant interest in 1,333,340,000 Shares in aggregate, representing voting power in the Company of 45.37%.

Accordingly, Resolution 2 seeks Shareholder approval for the purpose of Item 7 of Section 611 of the Corporations Act and for all other purposes to enable the Company to issue the New Shares to the Subscribers.

#### **2.5 Specific information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74**

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 when seeking approval under Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report annexed to this Explanatory Statement.

(a) **Identity of the person proposing to make the acquisition and its associates**

The persons proposing to acquire the New Shares, by way of the issue of New Shares to them, are the Subscribers. Information regarding the Subscribers (and the key Principals behind the Subscribers) is contained in section 1.2.

(b) **Relevant interest and voting power**

(i) **Relevant interest**

As disclosed to the ASX on 27 April 2016 (through a notice of initial substantial holder), each of the Subscribers obtains a relevant interest in the Shares:

- (A) for which they subscribed under the SSA, by virtue of being the registered holder and controller of those Shares, under section 608(1)(a) of the Corporations Act; and
- (B) additionally, each Subscriber obtains a relevant interest in those Shares held by each other Subscriber, on the basis that under the Co-operation Agreement each Subscriber obtains a relevant interest:
- through the right to control the exercise of votes attached to the Shares which are collectively held by the Subscribers, under section 608(1)(b) of the Corporations Act; and
  - through the right to control the exercise of a power to dispose of the Shares which are collectively held by the Subscribers, under section 608(1)(c) of the Corporations Act.

As also disclosed to the ASX (through multiple notices of initial substantial holder), each Principal has a deemed relevant interest in those Shares in the Company which the Subscribers have a relevant interest in, through the Principals being the controller of their respective Subscriber entity under sections 608(1) and 608(3)(a) and/or (b) of the Corporations Act.

The relevant interests of the Subscribers and their associates in voting Shares in the capital of the Company (at the date of this Notice and, subject to Resolution 2 being approved by the Shareholders and completion of the Tranche 2 Placement occurring under the SSA, following the issue of the New Shares) are set out in the table below:

<b>Party</b>	<b>Shares held in its own name as at the date of this Notice</b>	<b>Relevant interest in Shares held by each party and its associates as at the date of this Notice</b>	<b>Shares held in its own name after issue of New Shares</b>	<b>Relevant interest in Shares held by each party and its associates after issue of New Shares</b>
Billion Power Capital Investment Limited	111,120,000	400,000,000	370,380,000 <sup>6</sup>	1,333,340,000
Sunpex International Limited	55,560,000	400,000,000	185,187,000 <sup>7</sup>	1,333,340,000
GS Energy Pty Ltd	222,240,000	400,000,000	740,747,000	1,333,340,000
Austar Nominees Pty Ltd <sup>8</sup>	11,080,000	400,000,000	37,026,000 <sup>9</sup>	1,333,340,000

<sup>6</sup> Refer also to Resolution 12 pursuant to which the key Principal, Mr Xue, may also receive 20,000,000 New Options.

<sup>7</sup> Refer also to Resolution 11 pursuant to which the key Principal, Mr Wong, may also receive 20,000,000 New Options.

<sup>8</sup> In its capacity as trustee for The Wang Family Trust. Refer also to Resolution 13 pursuant to which the key Principal, Dr Wang, may also receive 20,000,000 New Options.

<sup>9</sup> Refer also to Resolution 13 pursuant to which the key Principal, Dr Wang, may also receive 20,000,000 New Options.

Each Principal	N/A	400,000,000	N/A	1,333,340,000
<b>Total</b>	<b>400,000,000</b>	<b>N/A</b>	<b>1,333,340,000<sup>10</sup></b>	<b>N/A</b>

(ii) **Voting power**

The voting power of the Subscribers and their associates (including at the date of this Notice, and subject to Resolution 2 being approved by the Shareholders and completion of the Tranche 2 Placement occurring under the SSA, following the issue of the New Shares) is set out in the table below:

<b>Party</b>	<b>Voting power attached to Shares held in its own name as at the date of this Notice</b>	<b>Voting power including that attached to Shares held by the associates of the party as at the date of this Notice</b>	<b>Voting power attached to Shares held in its own name after issue of New Shares</b>	<b>Voting power including that attached to Shares held by the associates of the party after issue of New Shares</b>
Billion Power Capital Investment Limited	5.54%	19.95%	12.60% <sup>11</sup>	45.37%
Sunpex International Limited	2.77%	19.95%	6.30% <sup>12</sup>	45.37%
GS Energy Pty Ltd	11.08%	19.95%	25.21% <sup>13</sup>	45.37%
Austar Nominees Pty Ltd <sup>14</sup>	0.55%	19.95%	1.26% <sup>15</sup>	45.37%
Each Principal	N/A	19.95%	N/A	45.37%
<b>Total</b>	<b>19.95%</b>	<b>N/A</b>	<b>45.37%</b>	<b>N/A</b>

The maximum extent of the increase in the voting power of the Subscribers and their associates in the Company that would result from the issue of the New Shares under Resolution 2 is 25.42%<sup>16</sup>.

(iii) **Assumptions**

Note that the following assumptions have been made in calculating the above:

- (A) the Company has 2,005,476,834 Shares on issue as at the date of this Notice of Meeting;

<sup>10</sup> Refer also to the additional 60,000,000 New Options in aggregate which may be issued pursuant to Resolutions 11, 12 and 13 if passed.

<sup>11</sup> An increase of 7.06%

<sup>12</sup> An increase of 3.536%

<sup>13</sup> An increase of 14.13%

<sup>14</sup> In its capacity as trustee for The Wang Family Trust

<sup>15</sup> An increase of 0.71%

<sup>16</sup> Refer also to the additional 60,000,000 New Options in aggregate which may be issued pursuant to Resolutions 11, 12 and 13 if passed.

- (B) the Company does not issue any additional Shares after the date of this Notice and before the date of the Meeting;
- (C) no Existing Options or other options are exercised after the date of this Notice and before the date of the Meeting<sup>17</sup>; and
- (D) the Subscribers acquire the New Shares following Shareholder approval of Resolution 2, but do not acquire any other Shares after the date of this Notice and before the date of the Meeting.

(c) **Reasons for the proposed issue of New Shares**

The reason for the issue of New Shares to the Subscribers is to raise funds to enable the Company to (in the following order of priority):

- (i) meet all obligations and work commitments on the Company's oil and gas assets;
- (ii) consider further acquisitions in the oil and gas sector; and
- (iii) provide ongoing working capital.

(d) **Date of proposed issue of New Shares**

The New Shares the subject of Resolution 2 will be issued within 2 Business Days of Shareholder approval of Resolution 2, subject to the satisfaction (or waiver) of all other conditions precedent to the completion of Tranche 2 Placement.

(e) **Material terms of proposed issue of New Shares**

Subject to Resolution 2 being approved by the Shareholders and completion of the Tranche 2 Placement occurring under the SSA, the Company is proposing to issue 933,340,000 New Shares at a deemed issue price of \$0.003 per New Share to the Subscribers. The issue of the New Shares under the SSA is conditional on a number of conditions precedent, including the following:

- (i) the satisfaction or waiver of any outstanding conditions precedent relating to the Tranche 1 Placement and completion of the Tranche 1 Placement;
- (ii) the Company obtaining Shareholder approval for the issue of the New Shares to the Subscribers (such approval being the subject of Resolution 2);
- (iii) the Company's warranties as set out in the SSA are true and correct in all material respects as at immediately before completion of the Tranche 2 Placement; and
- (iv) the Company obtaining any regulatory consents or approvals from any government agency that are necessary for the parties to perform their obligations under the SSA.

As at the date of this Notice:

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<sup>17</sup> Note that, in contrast, the Independent Expert in its calculations in the Independent Expert's Report at Annexure A has assumed that all of the 32,500,000 'in the money' options (and assuming the cancellation of the Existing Options) exercisable at \$0.002 that have a vesting condition that requires the 5 day VWAP of the Company's shares to equal or exceed \$0.003 will be exercised.

- (v) the conditions precedent relating to the Tranche 1 Placement have been satisfied and the Tranche 1 Placement has completed; and
- (vi) each other condition precedent to the issue of the New Shares remains outstanding.

(f) **Relevant agreements conditional on shareholder approval**

As at the date of this Notice, the SSA is the only relevant agreement between the Company and the Subscribers that is conditional on (or directly or indirectly depends on) Shareholder approval of the proposed issue of New Shares.

(g) **The Subscribers' intentions**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that the Subscribers and the Principals:

- (i) have no present intention of making any significant changes to the business of the Company;
- (ii) have no present intention to inject further capital into the Company;
- (iii) have no present intention of making changes regarding the future employment of the present employees of the Company. However, in accordance with the terms of the SSA, a second representative of the Subscribers will be appointed to the position of director of the Company (with Mr Tung Leung (Benson) Wong, a representative of the Subscribers, having been appointed to the position of Director on 28 April 2016, following completion of the Tranche 1 Placement). See below at section 2.5(h);
- (iv) do not intend to transfer any assets between the Company and the Subscribers or their associates;
- (v) do not intend to redeploy any fixed assets of the Company; and
- (vi) have no present intention of significantly changing the financial or dividend distribution policies of the Company.

These intentions are based on information concerning the Company, its business and the business environment which is known to the Subscribers at the date of this Notice.

The above statements of present intention may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(h) **Persons who are intended to become a Director if Resolution 2 is approved**

As explained above, in accordance with the terms of the SSA, Mr Tung Leung (Benson) Wong, a representative of the Subscribers, was appointed to the position of director of the Company on 28 April 2016, following completion of the Tranche 1 Placement. Section 1.2 of this Notice outlines Mr Wong's qualifications and experience as well as the associations he has with the Subscribers. Other than as disclosed elsewhere in this Notice, Mr Wong does not have any other interest in the New Shares or in a relevant agreement with the Company.

Subject to Resolution 2 being approved by Shareholders, and the other conditions precedent to the issue of the New Shares being satisfied (or waived) then the terms of the

SSA provide that the Subscribers may nominate a second person to be appointed as a Director. As at the date of this Notice, the Company understands that the Subscribers intend to nominate Mr Hui Xiong (Wilson) Xue as the second person to be appointed as a director of the Company. Section 1.2 of this Notice outlines Mr Xue's qualifications and experience as well as the associations he has with the Subscribers and their associates. Other than as disclosed elsewhere in this Notice, Mr Xue does not have any other interest in the New Shares or in a relevant agreement with the Company.

Messrs Todd and McGoldrick will cease to be directors upon completion of the Tranche 2 Placement and will remain as advisors to the Board of the Company. Therefore the Board will be comprised of four directors following completion of the Tranche 2 Placement.

(i) **Interests and recommendations of Directors**

- (i) None of the current Board members (other than Mr Tung Leung (Benson) Wong who was appointed on 28 April 2016 following completion of the Tranche 1 Placement) have a material personal interest in the outcome of Resolution 2, other than as Shareholders of the Company.
- (ii) All of the Directors (other than Mr Tung Leung (Benson) Wong) are of the opinion that the Tranche 2 Placement is in the best interests of Shareholders and, accordingly, these Directors unanimously recommend that Shareholders not associated with the Subscribers vote in favour of Resolution 2. Mr Tung Leung (Benson) Wong abstains from giving a recommendation on the basis that he is a principal of the Subscribers. The Director's recommendations are based on the reasons outlined in Section 2.6 below.
- (iii) The Directors (other than Mr Tung Leung (Benson) Wong) are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 2. Mr Tung Leung (Benson) Wong makes no statement as to the adequacy of the information in this Notice of Meeting.

(j) **Capital structure**

Below is a table showing the Company's current capital structure and the proposed capital structure on completion of the issue of New Shares the subject of Resolution 2 and New Options the subject of Resolutions 7 to 13, depending on whether or not the Existing Options are cancelled (such cancellation being the subject of Resolutions 3 6):

	Shares	Options
Balance at the date of this Notice (including the Existing Options the subject of Resolutions 3-6)	2,005,476,834	183,083,403 <sup>18</sup>
Balance after issue of the New Shares the subject of Resolution 2 and the New Options the subject of Resolutions 11-13 only if the Existing Options are not cancelled	2,938,816,834	243,083,403
Balance after issue of the New Shares the subject of Resolution 2 and the New	2,938,816,834	243,083,403

<sup>18</sup> At various exercise prices and expiry dates - as set out in the Company's Appendix 5B dated 29 April 2016 save that 2 million options expired on 30 April 2016.



	Shares	Options
Options the subject of Resolutions 7-13 if the Existing Options are cancelled		

Note that the assumptions set out in section 2.5(b)(iii) above have been made in calculating the Company's capital structure.

## 2.6 Advantages of the issue of New Shares – Resolution 2

The Directors (other than Mr Tung Leung (Benson) Wong who abstains from providing an opinion on the basis that he is a principal of the Subscribers) are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on Resolution 2:

- (a) the issue of the New Shares to the Subscribers, would provide the Company with additional funds of \$2,800,020 before issue costs;
- (b) the funds raised will enable the Company to (in order of priority):
  - (i) meet all existing obligations and work commitments on the Company's oil and gas assets;
  - (ii) consider acquisitions in the oil and gas sector; and
  - (iii) provide general working capital for the Company's future operations;
- (c) the Subscribers will assist the Company with a proven management team and appropriate levels of funding support shown via the commitment of the Subscribers with the core objective to increase Shareholder value;
- (d) the issue of New Shares to the Subscribers will complete the Company's obligations under the SSA and will not require renegotiation of its terms; and
- (e) the Independent Expert has concluded that the issue of the New Shares is not fair but is reasonable to the Shareholders not associated with the Subscribers.

The Directors encourage Shareholders to refer also to section 2.8 below including the additional comments made by the Independent Expert regarding advantages of the issue of the New Shares as contemplated by Resolution 2.

## 2.7 Disadvantages of the issue of New Shares – Resolution 2

The Directors (other than Mr Tung Leung (Benson) Wong who abstains from providing an opinion on the basis that he is a principal of the Subscribers) are of the view that the main disadvantage that may be relevant to a Shareholder's decision on how to vote on proposed Resolution 2 is that the issue of the New Shares to the Subscribers will increase the aggregated voting power of the Subscribers from 19.95% to 45.37%, reducing the voting power of Shareholders not associated with the Subscribers to 54.63%.

The Directors encourage Shareholders to refer also to section 2.8 below including the additional comments made by the Independent Expert regarding disadvantages of the issue of the New Shares as contemplated by Resolution 2.

## 2.8 Independent Expert's Report – Resolution 2

The Independent Expert's Report (a copy of which is attached as Annexure A to this Explanatory Statement) assesses whether the Tranche 2 Placement contemplated by Resolution 2 is fair and reasonable to the Shareholders not associated with the Subscribers.

The Independent Expert's Report concludes that the transaction contemplated by Resolution 2 is not fair but is reasonable to the Shareholders not associated with the Subscribers.

The Tranche 2 Placement has been assessed as being not fair based on the Independent Expert's valuation of a Share following the Tranche 2 Placement on a minority basis as being less than its valuation of a Share prior to the Tranche 2 Placement on a controlling basis at the preferred end of the valuation range (refer sections 11 and 12 of the Independent Expert's Report). Regard should also be had to the quoted market value analysis (refer section 13.5 of the Independent Expert's Report).

The Independent Expert considered the Tranche 2 Placement to be reasonable because the advantages of the Tranche 2 Placement to Shareholders not associated with the Subscribers are greater than the disadvantages (refer section 13 of the Independent Expert's Report).

The Independent Expert notes that the key advantages of the proposal raised in Resolution 2 to the Company and Shareholders not associated with the Subscribers include the following:

- (a) the value of a Share following completion of the Tranche 2 Placement on a minority interest basis at the preferred and high end are within the range values of a Share on a minority interest basis prior to the Tranche 2 Placement. This is relevant for Shareholders not associated with the Subscribers because such Shareholders are considered to hold a minority interest in the Company both prior to and following the Tranche 2 Placement;
- (b) the Tranche 2 Placement provides funds to enable the Company to meet its existing project commitments and working capital;
- (c) the Tranche 2 Placement is to be completed at an issue price substantially higher than the Independent Expert's assessed value of a Company share based on quoted market price methodology. The price is also above most recent capital raising; and
- (d) the Tranche 2 Placement will strengthen the balance sheet and shows support from strategic investors.

The key disadvantages noted by the Independent Expert are as follows:

- (a) as discussed above, the Tranche 2 Placement has been assessed as being not fair based on the Independent Expert's assessment of preferred values of a Share on a control basis;
- (b) the interest of the Shareholders not associated with the Subscribers in the Company will be diluted (as a result of the issue of New Shares) from 100% to a minimum of 45.03%;
- (c) there is the potential for lower liquidity of Shares; and
- (d) completion of the Tranche 2 Placement may result in a decrease in the likelihood of a takeover offer emerging.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made. Shareholders should read the Independent Expert's Report in its entirety before deciding how to vote on the Resolutions.

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### **3. ORDINARY RESOLUTIONS 3 to 6: Cancellation of Directors' Existing Options**

On 26 April 2016, the Board of the Company resolved, subject to obtaining Shareholder approval, to cancel a total of 80,000,000 Existing Options held by Directors, as set out below:

- (a) Gavin Harper (Director) – 20,000,000 Existing Options
- (b) Iain Smith (Director) – 20,000,000 Existing Options
- (c) Conrad Todd (Director) – 20,000,000 Existing Options
- (d) Rory McGoldrick (Director) – 20,000,000 Existing Options.

In each case, half of the applicable Existing Options held by these Directors are exercisable subject to the achievement of the five-day VWAP of the Company's Shares being equal to or exceeding \$0.003 on or before 30 June 2019 and the other half are exercisable subject to the achievement of the five-day VWAP of the Company's Shares being equal to or exceeding \$0.006 on or before 30 June 2019.

The decision to cancel the Existing Options was made in order to simplify the Company's capital structure particularly in the context of the Subscribers' investment in the Company under the SSA. All the Directors holding Existing Options have agreed to the cancellation of their Existing Options. If Shareholder approval is obtained, each Director currently holding Existing Options will be paid \$20,000 consideration in exchange for the cancellation of their Existing Options. The current value of each Director's Existing Options (as determined by an independent accountant using the pricing methodology is set out in Appendix 3) is \$0.00197 per Existing Option which is subject to the vesting condition that the five-day VWAP equals or exceeds \$0.003 and \$0.00194 per Existing Option which is subject to the vesting condition that the five-day VWAP equals or exceeds \$0.006, as compared to the proposed consideration payable to cancel, being \$0.001 per Existing Option.

### **Section 195 of the Corporations Act**

Section 195(1) of the Corporations Act provides that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

If there is not a quorum of directors who are eligible to vote on a matter because of the operation of Section 195(1) of the Corporations Act, one or more directors may call a general meeting and the general meeting may deal with the matter.

Each of the Directors (other than Tung Leung (Benson) Wong) have a material personal interest in the outcome of Resolutions 3 to 6 because they will be receiving consideration of \$20,000 in relation to the cancellation of their Existing Options.

The Directors have exercised their right under section 195(4) of the Corporations Act to call the Meeting and put the matters the subject of Resolutions 3 to 6 to Shareholders.

### **Shareholder approval (Listing Rule 6.23.2)**

Listing Rule 6.23.2 provides that the Company must obtain Shareholder approval in order to cancel an option for consideration. As required by Listing Rule 6.23.2, a voting exclusion statement for each of Resolutions 3 to 6 is included in the Notice of General Meeting preceding this Explanatory Statement.

The following information is provided in relation to the proposed cancellation of the Existing Options:

- (a) the maximum number of Existing Options to be cancelled in aggregate is 80,000,000 Existing Options, being 20,000,000 Existing Options held by each Director listed above;
- (b) the maximum amount payable to those Directors holding Existing Options in aggregate is \$80,000, being \$20,000 to each Director listed above;
- (c) the total value of the Existing Options in aggregate is \$156,400, being \$78,800 for those Existing Options which are subject to the vesting condition that the five-day VWAP equals or exceeds \$0.003 and \$77,600 for the Existing Options which are subject to the

vesting condition that the five-day VWAP equals or exceeds \$0.006, and the pricing methodology is set out in Appendix 3;

- (d) the primary purpose of the cancellation of the Existing Options is to simplify the Company's capital structure particularly in the context of the Subscribers' investment in the Company under the SSA;
- (e) the relevant interest of those Directors holding Existing Options in securities of the Company as at the date of this Notice is set out below:

	<b>Shares</b>	<b>Existing Options</b>	<b>Other Options</b>	<b>Performance Rights</b>
Gavin Harper (Director)	74,060,114	20,000,000	Nil	15,000,000
Iain Smith (Director)	60,074,837	20,000,000	3,000,000	15,000,000
Conrad Todd (Director)	68,000,000	20,000,000	Nil	15,000,000
Rory McGoldirck (Director)	53,450,000	20,000,000	Nil	Nil

- (f) the Company is proposing to issue New Options to Directors (including the Directors whose Existing Options are proposed to be cancelled under these Resolutions 3 to 6), proposed Directors and Key Management Personnel pursuant to Resolutions 7 to 13, subject to Shareholder approval (see section 4 of this Explanatory Statement);
- (g) Mr Harper declines to make a recommendation to Shareholders in relation to Resolution 3 due to Mr Harper's material personal interest in the outcome of the Resolution on the basis that Mr Harper is to be paid \$20,000 should Resolution 3 be passed. However, in respect of Resolutions 4 to 6, Mr Harper recommends that Shareholders vote in favour of those Resolutions for the following reasons:
  - (i) the consideration being paid to cancel the Existing Options is less than the current market value of the Existing Options;
  - (ii) the cancellation of the Existing Options will reduce any possible dilution that may be experienced by Shareholders as a result of the exercise of the Existing Options; and
  - (iii) the cancellation of the Existing Options will simplify the Company's capital structure;
- (h) Mr Smith declines to make a recommendation to Shareholders in relation to Resolution 4 due to Mr Smith's material personal interest in the outcome of the Resolution on the basis that Mr Smith is to be paid \$20,000 should Resolution 4 be passed. However, in respect of Resolutions 3, 5 and 6, Mr Smith recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (g);
- (i) Mr Todd declines to make a recommendation to Shareholders in relation to Resolution 5 due to Mr Todd's material personal interest in the outcome of the Resolution on the basis that Mr Todd is to be paid \$20,000 should Resolution 5 be passed. However, in respect of Resolutions 3, 4 and 6, Mr Todd recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (g);

- (j) Mr McGoldrick declines to make a recommendation to Shareholders in relation to Resolution 6 due to Mr McGoldrick's material personal interest in the outcome of the Resolution on the basis that Mr McGoldrick is to be paid \$20,000 should Resolution 6 be passed. However, in respect of Resolutions 3 to 5, Mr McGoldrick recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (g);
- (k) Mr Wong abstains from giving a recommendation on the basis that he is a principal of the Subscribers;
- (l) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolutions.

### **Chapter 2E of the Corporations Act**

Chapter 2E of the Corporations Act provides that for a public company to give a financial benefit to a related party of the public company, that public company must obtain Shareholder approval. However, section 210 of the Corporations Act provides an exception to the requirements of Chapter 2E if the financial benefit is given on terms that:

- (a) would be reasonable in the circumstances if the public company and the related party were dealing at arm's length; or
- (b) are less favourable to the related party than the terms referred to in paragraph (a).

It is the view of the Directors that as the consideration being paid to Directors is relation to the cancellation of the Existing Options is significantly less than the value of the Existing Options (as determined by an independent accountant using the pricing methodology is set out in Appendix 3), the exception contained in Section 210 of the Corporations Act applies in the current circumstances. Accordingly, Shareholder approval is not required for the purposes of Chapter 2E of the Corporations Act.

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#### **4. ORDINARY RESOLUTIONS 7 to 13: Grant of New Options to Directors and Related Parties**

On 26 April 2016, the Board of the Company resolved, subject to obtaining Shareholder approval to cancel the Existing Options under Resolutions 3 to 6 and Shareholder approval to the new issue, to issue a total of 140,000,000 New Options to its Directors, proposed Directors and Key Management Personnel as set out below:

- (a) Gavin Harper (Director) – 20,000,000 New Options
- (b) Iain Smith (Director) – 20,000,000 New Options
- (c) Conrad Todd (Director and, following completion of the Tranche 2 Placement, proposed advisor and Key Management Personnel) – 20,000,000 New Options
- (d) Rory McGoldrick (Director and, following completion of the Tranche 2 Placement proposed advisor and Key Management Personnel) – 20,000,000 New Options
- (e) Tung Leung (Benson) Wong (Director) – 20,000,000 New Options
- (f) Hui Xiong (Wilson) Xue (Proposed Director following completion of the Tranche 2 Placement) – 20,000,000 New Options
- (g) Xingjin Wang (Proposed advisor and Key Management Personnel following completion of the Tranche 2 Placement) – 20,000,000 New Options,

(together, the **Related Parties**) on the terms and conditions set out in Appendix 1.

For a public company to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Section 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

The issue of the New Options to the Related Parties requires the Company to obtain Shareholder approval because the grant of New Options constitutes giving a financial benefit, and as such Messrs Harper, Smith, Todd, McGoldrick, Wang, Wong and Xue are Related Parties of the Company by virtue of being Directors, proposed Directors or proposed Key Management Personnel.

In addition, Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in Listing Rule 10.12 applies.

It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act and Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of New Options to the Related Parties.

### **Section 195 of the Corporations Act**

Section 195(1) of the Corporations Act provides that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

If there is not a quorum of directors who are eligible to vote on a matter because of the operation of Section 195(1) of the Corporations Act, one or more directors may call a general meeting and the general meeting may deal with the matter.

Each of the Directors and proposed Directors have a material personal interest in the outcome of Resolutions 3 to 9 because they will be receiving New Options if these Resolutions are passed.

The Directors have exercised their right under section 195(4) of the Corporations Act to call the Meeting and put the matters the subject of Resolutions 7 to 13 to Shareholders.

### **Shareholder approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)**

Pursuant to, and in accordance with, the requirements of Sections 217 to 227 of the Corporations Act and Listing Rule 10.13, the following information is provided in relation to the proposed issue of the New Options the subject of Resolutions 7 to 13:

- (a) the Related Parties are Gavin Harper, Iain Smith, Conrad Todd, Rory McGoldrick, Tung Leung (Benson) Wong, Xingjin Wang and Hui Xiong (Wilson) Xue by virtue of being Directors, proposed Directors and proposed Key Management Personnel;
- (b) the maximum number of New Options (being the nature of the financial benefit being provided) to be issued to the Related Parties in aggregate is 140,000,000 New Options, being 20,000,000 New Options to each of the Directors, proposed Directors and Key Management Personnel listed above;
- (c) the New Options will be exercisable as follows:

- (i) 50% or 10,000,000 New Options proposed to be issued to each Related Party (or nominee) will be exercisable at \$0.004 on or before 30 June 2019 with such New Options vesting if the Optionholder remains in a position of Director or Key Management Personnel for the 12 month period following grant of the New Options; and
- (ii) 50% or 10,000,000 New Options proposed to be issued to each Related Party (or nominee) will be exercisable at \$0.004 on or before 30 June 2019 with such New Options vesting if the Optionholder remains in a position of Director or Key Management Personnel for the 24 month period following grant of the New Options;
- (d) all New Options will vest in the event of a takeover event or a change in control as defined by section 50AA of the Corporations Act;
- (e) the New Options will otherwise be issued on the terms and conditions outlined in Appendix 1;
- (f) the New Options will be issued to the Related Parties (or nominees) no later than 1 month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the New Options will be issued on one date;
- (g) the New Options will be granted for nil cash consideration, accordingly no funds will be raised. Funds will be raised (at \$0.004 per New Option) upon exercise of the same;
- (h) the value of the New Options is \$224,000 and the pricing methodology is set out in Appendix 2;
- (i) the relevant interest of the Related Parties in securities of the Company as at the date of this Notice is set out below:

	<b>Shares</b>	<b>Options</b>	<b>Performance Rights</b>
Gavin Harper (Director)	74,060,114	20,000,000 <sup>19</sup>	15,000,000
Iain Smith (Director)	60,074,837	23,000,000 <sup>20</sup>	15,000,000
Conrad Todd (Director)	68,000,000	20,000,000 <sup>21</sup>	15,000,000
Rory McGoldrick (Director)	53,450,000	20,000,000 <sup>22</sup>	Nil
Tung Leung (Benson) Wong (Director)	400,000,000 <sup>23</sup>	Nil	Nil
Xingjin Wang (proposed Key Management) Personnel)	400,000,000 <sup>24</sup>	Nil	Nil

<sup>19</sup> It is noted that 20,000,000 Existing Options currently held by Mr Harper are proposed to be cancelled pursuant to Resolution 3 (see section 3) and 20,000,000 New Options are proposed to be issued pursuant to Resolution 7.

<sup>20</sup> It is noted that 20,000,000 Existing Options currently held by Mr Smith are proposed to be cancelled pursuant to Resolution 4 (see section 3) and 20,000,000 New Options are proposed to be issued pursuant to Resolution 8.

<sup>21</sup> It is noted that 20,000,000 Existing Options currently held by Mr Todd are proposed to be cancelled pursuant to Resolution 5 (see section 3) and 20,000,000 New Options are proposed to be issued pursuant to Resolution 9.

<sup>22</sup> It is noted that 20,000,000 Existing Options currently held by Mr McGoldrick are proposed to be cancelled pursuant to Resolution 13 (see section 3) and 20,000,000 New Options are proposed to be issued pursuant to Resolution 10.

<sup>23</sup> Refer to sections 2.3 and 2.5(b)(i) for explanation behind calculation of Mr Wong's relevant interest in Shares and expected increase of this relevant interest if Resolution 2 is passed.

<sup>24</sup> Refer to sections 2.3 and 2.5(b)(i) for explanation behind calculation of Dr Wang's relevant interest in Shares and expected increase of this relevant interest if Resolution 2 is passed.

	Shares	Options	Performance Rights
Hui Xiong (Wilson) Xue (Proposed Director)	400,000,000 <sup>25</sup>	Nil	Nil

- (j) the Related Parties receive or will receive remuneration for the current and previous financial year as follows:

Director	2015-2016	2014-2015
Gavin Harper	80,000	62,300
Iain Smith	180,000	157,100
Conrad Todd	90,000	73,938
Rory McGoldrick	60,000	31,505
Tung Leung (Benson) Wong	26,667	-
Xingjin Wang	13,333	-
Hui Xiong (Wilson) Xue	13,333	-

- (k) If Shareholder approval is obtained under each of Resolutions 7 to 13 respectively and the New Options are issued to the Related Parties and each of those New Options is exercised in accordance with their terms (see the information detailed in Appendix 1), an additional 140,000,000 Shares, in aggregate, would be issued.

This will increase the number of Shares on issue from 2,938,816,834 to 3,078,816,834 (assuming Resolution 2 is passed and no other options are exercised) with the effect that the share holding of existing Shareholders would be diluted by 4.5%.

The market price for Shares during the term of the New Options would normally determine whether or not the New Options are exercised. If, at any time, any of the New Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the New Options, there may be a perceived cost to the Company;

- (l) the trading history of the Shares on ASX in the 12 months before the date of this Notice of General Meeting is set out below:

	Price	Date
Highest	\$0.003	2 May 2016
Lowest	\$0.001	7 March 2016
Latest	\$0.003	4 May 2016

- (m) the primary purpose of the issue of the New Options is to provide a market linked incentive to the Related Parties to motivate and reward their performance in their respective roles as Directors and Key Management Personnel;
- (n) the Board acknowledges the issue of New Options to non executive Directors is contrary to Recommendation 8.3 of *The Corporate Governance Principles and Recommendations* as published by The ASX Corporate Governance Council. However, the Board considers

<sup>25</sup> Refer to sections 2.3 and 2.5(b)(i) for explanation behind calculation of Mr Xue's relevant interest in Shares and expected increase of this relevant interest if Resolution 2 is passed.



the issue of New Options to non executive Directors reasonable in the circumstances for the reason set out in paragraph (o);

- (o) Mr Harper declines to make a recommendation to Shareholders in relation to Resolution 7 due to Mr Harper's material personal interest in the outcome of Resolution 7 on the basis that Mr Harper is to be issued New Options should Resolution 7 be passed. However, in respect of Resolutions 8 to 13, Mr Harper recommends that Shareholders vote in favour of those Resolutions for the following reasons:
  - (i) the issue of New Options to the Related Parties will align the interests of the Related Parties with those of Shareholders;
  - (ii) the issue of the New Options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations including for working capital purposes, than it would if alternative cash forms of remuneration were given to the Related Parties; and
  - (iii) it is not considered that there are any significant opportunity costs to the Company or opportunities foregone by the Company in issuing the New Options upon the terms proposed;
- (p) Mr Smith declines to make a recommendation to Shareholders in relation to Resolution 8 due to Mr Smith's material personal interest in the outcome of Resolution 8 on the basis that Mr Smith is to be issued New Options should Resolution 8 be passed. However, in respect of Resolutions 7 and 9 to 13, Mr Smith recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (o);
- (q) Mr Todd declines to make a recommendation to Shareholders in relation to Resolution 9 due to Mr Todd's material personal interest in the outcome of Resolution 9 on the basis that Mr Todd is to be issued New Options should Resolution 9 be passed. However, in respect of Resolutions 7, 8 and 10 to 13, Mr Todd recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (o);
- (r) Mr McGoldrick declines to make a recommendation to Shareholders in relation to Resolution 10 due to Mr McGoldrick's material personal interest in the outcome of Resolution 10 on the basis that Mr Smith is to be issued New Options should Resolution 10 be passed. However, in respect of Resolutions 7 to 9 and 11 to 13, Mr McGoldrick recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (o);
- (s) Mr Wong declines to make a recommendation to Shareholders in relation to Resolution 11 due to Mr Wong's material personal interest in the outcome of Resolution 11 on the basis that Mr Wong is to be issued New Options should Resolution 11 be passed. However, in respect of Resolutions 7 to 10 and 12 and 13, Mr Wong recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (o);
- (t) in forming their recommendations, each Director considered the experience of each other Related Party, the current market price of Shares, the current market practices when determining the number of New Options to be issued as well as the exercise prices and expiry dates of those New Options; and
- (u) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolutions.

Approval pursuant to Listing Rule 7.1 is not required in order to issue the New Options to the Related Parties as approval is being obtained under Listing Rule 10.11. Accordingly, subject to each of Resolutions 7 to 13

being approved by Shareholders, the issue of New Options to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to Listing Rule 7.1.

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## GLOSSARY

**\$** means Australian dollars.

**ASX** means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

**ASX Listing Rules** means the Listing Rules of ASX.

**Closely Related Party** of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

**Company** means Pilot Energy Limited- ACN 115 229 984.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directors** means the directors of the Company as at the date of this Notice.

**Existing Options** means options held by certain Directors as at the date of this Notice that are exercisable at \$0.002 by 31 December 2019, the subject of Resolutions 3 to 6.

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**General Meeting** or **Meeting** means the meeting convened by this Notice.

**Key Management Personnel** has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

**Notice** or **Notice of Meeting** or **Notice of General Meeting** means this notice of General Meeting including the Explanatory Statement and the Proxy Form.

**New Options** means options exercisable at \$0.004 by 31 December 2019, the subject of Resolutions 7 to 13.

**New Shares** means the 933,340,000 Shares which are proposed to be issued by the Company under the Tranche 2 Placement, the subject of Resolution 2.

**Ordinary Securities** has the meaning set out in the ASX Listing Rules.

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**Resolutions** means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of a Share.

**WST** means Australian Western Standard Time (Perth, Western Australia).

## Instructions for Completing 'Appointment of Proxy' Form

1. **(Changes to Proxy Voting):** Sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Section 250R(5) of the Corporations Act came into effect on 28 June 2012 and will affect the Chair's votes on undirected proxies. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this General Meeting. Broadly, the changes mean that:
    - (a) if proxy holders vote, they must cast all directed proxies as directed;
    - (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.Further details on these changes are set out below.
  2. **(Appointing a Proxy):** A member with two or more votes entitled to attend and vote at the General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
  3. **(Proxy vote if appointment specifies way to vote):** Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**
    - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);
    - (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;
    - (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
    - (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).
  4. **(Transfer of non-chair proxy to chair in certain circumstances):** Section 250BC of the Corporations Act provides that, if:
    - (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
    - (b) the appointed proxy is not the chair of the meeting;
    - (c) at the meeting, a poll is duly demanded on the resolution; and
    - (d) either of the following applies:
      - (i) the proxy is not recorded as attending the meeting;
      - (ii) the proxy does not vote on the resolution,the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.
  5. **(Signing Instructions):**
    - (a) **(Individual):** Where the holding is in one name, the member must sign.
    - (b) **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
    - (c) **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
-

- (d) **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
6. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
7. **(Voting in person):**
- (a) A Shareholder that is an individual may attend and vote in person at the Meeting. If you wish to attend the Meeting, please bring the attached proxy form to the Meeting to assist in registering your attendance and number of votes. Please arrive 15 minutes prior to the start of the Meeting to facilitate this registration process.
- (b) A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the Meeting in accordance with Section 250D of the Corporations Act. The appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the Certificate is enclosed with this Notice of Meeting
8. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return the Proxy Form (and any Power of Attorney under which it is signed):
- (a) In person to Level 2, 55 Carrington Street, Nedlands, Perth, WA;
- (b) By mail to PO Box 985, Nedlands, WA, 6909.
- (c) By Facsimile to +61 8 9389 8327;
- (d) By scan and email to davidm@broadwaymgt.com.au

**so that it is received at least 48 hours prior to commencement of the General Meeting. Proxy Forms received later than this time will be invalid.**

# PILOT ENERGY LIMITED

ACN 115 229 984

## APPENDIX 1

The material terms and conditions of the New Options referred to in Resolutions 7 to 13 are as follows:

- (a) The New Options will be issued in one tranche with an exercise price of \$0.004 (**Exercise Price**);
- (b) The New Options are exercisable at any time on or before 31 December 2019 (**Expiry Date**).
- (c) 50% of the New Options vest if the New Option holder remains a director, employee, consultant or advisor of the Company for 12 months after the date of grant.
- (d) 50% of the New Options vest if the New Option holder remains a director, employee, consultant or advisor of the Company for 24 months after the date of grant.
- (e) Each New Option exercised will entitle the holder to one Share in the capital of the Company.
- (f) The notice attached to the certificate has to be completed when exercising the New Options (**Notice of Exercise**).
- (g) New Options may be exercised by the holder completing and forwarding to the Company a Notice of Exercise and payment of the exercise price for each New Option being exercised prior to the Expiry Date.
- (h) All Shares issued upon exercise of the New Options will rank pari passu in all respects with the Company's then existing Shares.
- (i) Shares issued pursuant to the exercise of New Options will be issued not more than 15 business days after the receipt of a properly executed Notice of Exercise and payment for the Exercise Price of each New Option being exercised. The Company will:
  - (i) allot and issue the Shares pursuant to the exercise of the New Options;
  - (ii) use its reasonable endeavours to give ASX a notice that complies with section 708A(5)(e) of the Corporations Act within 5 business days of issue or as soon as reasonably practicable thereafter lodge a prospectus with ASIC that qualifies the Shares for resale under section 708A(11) of the Corporations Act; and
  - (iii) apply for official quotation on ASX of Shares issued pursuant to the exercise of New Options.
- (j) The holder of New Options cannot participate in new issues of securities to holders of Shares unless the New Options have been exercised and the Shares have been issued and registered in respect of the New Options before the record date for determining entitlements to the issue. The Company must give notice to the holder of the New Options of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules. New Options can only be exercised in accordance with these terms and conditions.
- (k) If the Company makes a pro rata bonus issue of Shares to holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Shares have been issued and registered in respect of the exercise of New Options before the record date for determining entitlements to the bonus issue, then the number of Shares or other securities for which the holder of the New Options is entitled to subscribe on exercise of the Options is increased by the number of Shares or other securities that the holder of the New Options would have received if the New Options

had been exercised before the record date for the bonus issue. No change will be made to the Exercise Price.

- (l) If at any time the capital of the Company is reconstructed, all rights of a New Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (m) All New Options will vest in the event of a takeover event or a change in control as defined by section 50AA of the Corporations Act (Change of Control).
- (n) All New Options will vest in the event that the New Option holder's respective service agreement, employment agreement or consultancy agreement with the Company is terminated by the Company without cause.
- (o) No application for quotation of the New Options will be made by the Company.
- (p) Subject to compliance with the Corporations Act, the New Options are transferable prior to the occurrence of a Change in Control Event only to a Related Party of the Holder; and after the occurrence of a Change in Control Event, the New Options are transferrable.

# PILOT ENERGY LIMITED

ACN 115 229 984

## APPENDIX 2

### **Valuation of New Options to be issued to the Related Parties under Resolutions 7 to 13**

The Company has obtained from an independent accountant a valuation of the New Options to be issued to the Related Parties using the Black-Scholes option model and based on the assumptions as set out in the table below, with the New Options ascribed a value as follows:

*Assumptions:*

<b>Item</b>	<b>New Options</b>
Valuation date	20 April 2016
Underlying security spot price	\$0.0025
Exercise price	\$0.0040
Issue date	17 June 2016
Expiration date	31 December 2019
Life of the New Options	3.54 years
Volatility	110%
Risk free interest rate	2.10%
<b>Valuation per New Option</b>	<b>\$0.0016</b>



# PILOT ENERGY LIMITED

ACN 115 229 984

## APPENDIX 3

### Valuation of Existing Options to be cancelled under Resolutions 3 to 6

The Company has obtained from an independent accountant a valuation of the Existing Options to be cancelled using the Black-Scholes option model and based on the assumptions as set out in the table below, with the Existing Options ascribed a value as follows:

#### *Assumptions:*

<b>Item</b>	<b>\$0.003 Options*</b>	<b>\$0.006 Options**</b>
Valuation date	3 May 2016	3 May 2016
Underlying share value (5-day VWAP)	\$0.0027	\$0.0027
Exercise price	\$0.0020	\$0.0020
5-day VWAP barrier	\$0.0030	\$0.0060
Expiration date	30 June 2019	30 June 2019
Life of the Existing Options	3.16 years	3.16 years
Volatility	110%	110%
Risk free interest rate	1.88%	1.88%
<b>Valuation per Existing Option</b>	<b>\$0.00197</b>	<b>\$0.00194</b>

\* being the Existing Options (exercisable at \$0.002 on or before 30 June 2019) which are subject to the vesting condition that the five-day VWAP equals or exceeds \$0.003

\*\* being the Existing Options (exercisable at \$0.002 on or before 30 June 2019) which are subject to the vesting condition that the five-day VWAP equals or exceeds \$0.006





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# PROXY FORM

## PILOT ENERGY LIMITED

ACN 115 229 984

### GENERAL MEETING

I/We

Address

being a Member of Pilot Energy Limited entitled to attend and vote at the General Meeting, hereby

Appoint

Name of proxy (**Please note:** Leave blank if you have selected the Chair of the General Meeting as your proxy)

OR  the Chair of the General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the General Meeting to be held at 10.00 am (WST) on 23 June 2016 at Level 2, 55 Carrington St, Nedlands, Perth, Western Australia, and at any adjournment of that meeting.

Where I/we have appointed the Chair as my/our proxy (or where the Chair becomes my/our proxy by default), I/we expressly authorise the Chair to exercise my/our proxy on Resolutions 7 to 13 (except where I/we have indicated a different voting intention below) even though Resolutions 7 to 13 are connected directly with the issue of New Options to Related Parties of the Company.

**The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.**

#### Voting on Business of the General Meeting

	FOR	AGAINST	ABSTAIN
Ordinary Resolution 1: Ratification of Tranche 1 Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 2: Approval to issue New Shares for Tranche 2 Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 3: Approval to cancel Existing Options - Harper	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 4: Approval to cancel Existing Options - Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 5: Approval to cancel Existing Options - Todd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 6: Approval to cancel Existing Options - McGoldrick	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 7: Approval to issue New Options - Harper	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 8: Approval to issue New Options - Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 9: Approval to issue New Options - Todd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 10: Approval to issue New Options - McGoldrick	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 11: Approval to issue New Options - Wong	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 12: Approval to issue New Options - Wang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary Resolution 13: Approval to issue New Options - Xue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



**Please note:** If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is \_\_\_\_\_%.

**Signature of Member(s)**

\_\_\_\_\_ **Date:** \_\_\_\_\_

**Individual or Member 1**

**Member 2**

**Member 3**

**Sole Director/Company Secretary**

**Director**

**Director/Company Secretary**

**Contact Name:** \_\_\_\_\_ **Contact Ph (daytime):** \_\_\_\_\_ **Date:** \_\_\_\_\_



**PILOT ENERGY LIMITED**  
**Independent Expert's Report**

05 May 2016



## Financial Services Guide

05 May 2016

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Pilot Energy Limited ('Pilot Energy') to provide an independent expert's report on the proposal for Pilot Energy to issue an additional 933.34 million shares in aggregate to Billion Power Capital Investment Limited ('Billion Power'), Sunpex International Limited ('Sunpex'), GS Energy Pty Ltd ('GS Energy') and Austar Nominees Pty Ltd, in its capacity as trustee for the Wang Family Trust ('Austar'), collectively referred to as 'the Subscribers' to raise approximately \$2.8 million. You will be provided with a copy of our report as a retail client because you are a shareholder of Pilot Energy.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

## **Fees, commissions and other benefits that we may receive**

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$24,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

**Other Assignments** - BDO Tax (WA) Pty Ltd provided various tax services to Pilot Energy over the past two years with a collective fee of \$8,100.

BDO Audit and Assurance (WA) Pty Ltd was appointed as Auditor of Pilot Energy at the Annual General Meeting on 24 February 2016. We do not consider that this impacts on our independence in accordance with the requirements of Regulatory Guide 112 'Independence of Experts'. We have completed a conflict search of BDO affiliated organisations within Australia. This conflict search incorporates all Partners, Directors and Managers of BDO affiliated organisations. We are not aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance in this matter.

## **Remuneration or other benefits received by our employees**

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Pilot Energy for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

## **Referrals**

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

## **Complaints resolution**

### *Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

## **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

## **Contact details**

You may contact us using the details set out on page 1 of the accompanying report.





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Appendix 1 - Glossary and copyright notice

Appendix 2 - Valuation Methodologies

Appendix 3 - Independent Valuation Report prepared by RISC Operations Pty Ltd

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05 May 2016

The Directors  
Pilot Energy Limited  
Level 2, 55 Carrington Street  
NEDLANDS WA 6009

Dear Directors

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 31 March 2016, Pilot Energy Limited (**'Pilot Energy'** or **'the Company'**) announced that it had entered into a share subscription agreement (**'the SSA'**) with Billion Power Capital Investment Limited (**'Billion Power'**), Sunpex International Limited (**'Sunpex'**), GS Energy Pty Ltd (**'GS Energy'**) and Austar Nominees Pty Ltd, in its capacity as trustee for the Wang Family Trust (**'Austar'**), (collectively referred to as **'the Subscribers'**) to raise a total of approximately \$3.6 million as follows:

1. An initial investment by the Subscribers of \$800,000 to acquire 400 million ordinary shares at \$0.0020 per share (**'Tranche One'**); and
2. Subject to shareholder approval, a further investment by the Subscribers of \$2,800,020 to acquire 933.34 million ordinary shares at \$0.0030 per share (**'Tranche Two'**).

On 26 April 2016, the Company announced that it had completed Tranche One resulting in the Company issuing 400 million shares to the Subscribers at \$0.0020 per share. Tranche Two is subject to shareholder approval and therefore we have referred to the proposed issue of shares to the Subscribers under Tranche Two as **'the Transaction'**.

The Subscribers and the key principals of the Subscribers have had a working relationship for a number of years. Prior to entering into the SSA with the Company, the Subscribers had made joint investments in Australian businesses and had together considered a number of investment opportunities. The Subscribers collectively negotiated their investment in the Company and, notwithstanding that each are individual shareholders; they intend to exercise their rights as shareholders in consultation with each other. Shortly after completion of the Tranche One placement, the Subscribers entered into a co-operation agreement which provides a framework as to how each of them will exercise their rights as shareholders.

The Subscribers are deemed to be "associates" of each other by operation of section 12(1)(a) and sections 12(2)(b) and (c) of the Corporations Act 2001 (Cth) (the **'Act'**). This is on the basis that the Subscribers are party to a relevant agreement for the purposes of section 12(2)(b) of the Corporations Act, being the co-operation agreement, and separately the Subscribers propose to act in concert in relation to their investment in the Company.

At the date of this report, the Subscribers collectively hold 19.95% of the issued capital in the Company. Subject to the Shareholder approval of the Transaction and completion of the Transaction under the SSA, GS Energy alone will hold 24.93% of the issued capital in the Company. As the Subscribers are considered to be associates, we note that after the Transaction, the Subscribers will collectively hold 44.87% of the issued capital in the Company. Completion of the Transaction requires shareholders' approval pursuant to Section 611 Item 7 of the Act because the issue of shares by way of the Transaction will result in each Subscriber and each principal obtaining aggregated voting power in the Company greater than 20%.

All dollar amounts are in Australian dollars ('A\$' or 'AUD') unless otherwise indicated.

## 2. Summary and Opinion

### 2.1 Purpose of the report

The directors of Pilot Energy have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether or not the Transaction is fair and reasonable to the shareholders of Pilot Energy not associated with the Subscribers ('Shareholders').

Our Report is prepared pursuant to section 611 of the Act and is to be included in the Notice of Meeting for Pilot Energy in order to assist the Shareholders in their decision whether to approve the Transaction.

### 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Transaction as outlined in the body of this report. We have considered:

- How the value of a Pilot Energy share prior to the Transaction on a controlling basis compares to the value of a Pilot Energy share following the Transaction on a minority basis;
- Other factors which we consider to be relevant to Shareholders in their assessment of the Transaction; and
- The position of Shareholders should the Transaction not proceed.

### 2.3 Opinion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Transaction is not fair but reasonable to Shareholders.

In our opinion, the Transaction is not fair because the value of a Pilot Energy share following completion of the Transaction on a minority basis at the low, preferred and high end of our value range is less than the value of a Pilot Energy share prior to the Transaction on a controlling basis at the preferred end. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages. In particular, the Transaction will enable the Company to meet its existing project commitments on its exploration assets.

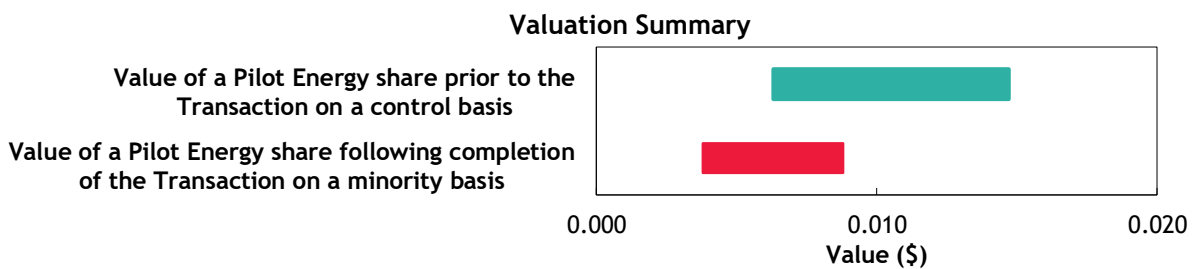
## 2.4 Fairness

In section 12, we determined how the value of a Pilot Energy share prior to the Transaction, on a control basis, compares to the value of a Pilot Energy share following the Transaction on a minority basis, as detailed below.

	Low value \$	Preferred value \$	High value \$
Value of Pilot Energy prior to the Transaction on a controlling basis	0.0063	0.0105	0.0147
Value of Pilot Energy following completion of the Transaction on a minority basis	0.0038	0.0062	0.0088

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

The above pricing indicates that, in the absence of any other relevant information, the Transaction is not fair for Shareholders.

## 2.5 Reasonableness

We have considered the analysis in section 13 of this report, in terms of both:

- advantages and disadvantages of the Transaction; and
- other considerations, including the position of Shareholders if the Transaction does not proceed and the consequences of not approving the Transaction.

In our opinion, the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.1.1	Minority interest values overlap	13.2.1	The Transaction is not fair
13.1.2	The Transaction provides funds to enable the Company to meet its existing project commitments and working capital	13.2.2	Dilution of existing Shareholders' interest

## ADVANTAGES AND DISADVANTAGES

Section	Advantages	Section	Disadvantages
13.1.3	Tranche Two issue price substantially higher than our assessed value of a Pilot Energy share based on the quoted market price methodology	13.2.3	Potential lower liquidity of shares
13.1.4	Strengthening of the Company's balance sheet and continuation as a going concern	13.2.4	Decreases the likelihood of a takeover offer
13.1.5	Guaranteed funding at a superior price to most recent capital raising		
13.1.6	Support from strategic investors		
13.1.7	No current changes to current operating arrangements		

Other key matters we have considered include:

Section	Description
13.3	Other considerations
13.4	Alternative proposals
13.5	Consequences of not approving the Transaction
13.6	Practical level of control

## 3. Scope of the Report

### 3.1 Purpose of the Report

At the date of this report, the Subscribers collectively hold 19.95% of the issued capital in the Company. Subject to Shareholders' approval and completion of the Transaction under the SSA, GS Energy will own 24.93% of the issued capital in Pilot Energy. The Subscribers are considered to be associates and we note that after the Transaction, the Subscribers will collectively hold 44.87% of the issued capital in the Company. Section 606 of the Corporations Act expressly prohibits the acquisition of a relevant interest in issued voting shares in a public company by a party if that acquisition will result in that person's (or someone else's) voting power in the company increasing from 20% or below to more than 20% unless the acquisition is covered under one of the exceptions set out in section 611 of the Act.

One of the exceptions set out in section 611 of the Act is an acquisition approved previously by the shareholders of that entity if certain conditions are satisfied. This shareholder approval must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by the party proposing to make the acquisition and their associates. Shareholders of the company must be given all information known to the person proposing to make the acquisition or their associates, or known to the company that is material to the decision on how to vote on the resolution.

RG 74 states that the obligation to supply shareholders with all information that is material which would include an analysis of the proposed acquisition can be satisfied by the non-associated directors of Pilot Energy by either:

- undertaking a detailed examination of the Transaction themselves, if they consider that they have sufficient expertise, experience and resources; or
- by commissioning an Independent Expert's Report.

The directors of Pilot Energy have commissioned this Independent Expert's Report to satisfy this obligation.

### **3.2 Regulatory guidance**

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Transaction as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

### **3.3 Adopted basis of evaluation**

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than or equal to the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of a Pilot Energy share prior to the Transaction on a control basis and the value of a Pilot Energy share following the Transaction on a minority basis (fairness - see Section 12 'Is the Transaction Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the Transaction, after reference to the value derived above (reasonableness - see Section 13 'Is the Transaction Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

*‘an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.’*

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

## 4. Outline of the Transaction

### 4.1 The Transaction

On 31 March 2016, Pilot Energy announced that it had entered into a SSA with Billion Power, Sunpex, GS Energy and Austar to raise a total of approximately \$3.6 million as follows:

1. An initial investment by the Subscribers of \$800,000 to acquire 400 million ordinary shares at \$0.0020 per share; and
2. Subject to shareholder approval, a further investment by the Subscribers of \$2,800,020 to acquire 933.34 million ordinary shares at \$0.0030 per share.

On 26 April 2016, the Company announced that it had completed Tranche One resulting in the Company issuing 400 million shares to the Subscribers at \$0.0020 per share. Tranche Two is subject to shareholder approval and therefore we have referred to the proposed issue of shares to the Subscribers under Tranche Two as the Transaction.

The Subscribers and the key principals of the Subscribers have had a working relationship for a number of years. Prior to entering into the SSA with the Company, the Subscribers had made joint investments in Australian businesses and had together considered a number of investment opportunities. The Subscribers collectively negotiated their investment in the Company and, notwithstanding that each are individual shareholders, they intend to exercise their rights as shareholders in consultation with each other. Shortly after completion of the Tranche One placement, the Subscribers entered into a co-operation agreement which provides a framework as to how each of them will exercise their rights as shareholders.

The Subscribers are deemed to be “associates” of each other by operation of section 12(1)(a) and sections 12(2)(b) and (c) of the Act. The Subscribers are party to a relevant agreement for the purposes of section 12(2)(b) of the Act, being the co-operation agreement, and separately the Subscribers propose to act in concert in relation to their investment in the Company.

At the date of this report, the Subscribers collectively hold 19.95% of the issued capital in the Company. Subject to shareholder approval and completion of the Transaction, GS Energy alone will hold 24.93% of the issued capital in the Company. As the Subscribers are considered to be associates, we note that after the Transaction, the Subscribers will collectively hold 44.87% of the issued capital in the Company.

### Subscribers' intentions

If the Transaction is approved, the Subscribers and its principals have no present intention to:

- i. make any significant changes to the business of the Company;
- ii. inject further capital into the Company;
- iii. make changes regarding the future employment of the present employees of the Company. However, in accordance with the terms of the SSA, a second representative of the Subscribers will be appointed to the position of the director of the Company (with Mr Tung Leung (Benson) Wong), a representative of the Subscribers, having been appointed to the position of Director on 28 April 2016, following the completion of Tranche One;
- iv. transfer any assets between Pilot Energy and the Subscribers or their associates;
- v. redeploy the fixed assets of Pilot Energy; and
- vi. significantly change the financial or dividend distribution policies of the Company other than as disclosed in the Explanatory Statement

### Conditions Precedent

The Transaction is subject to the following conditions precedent, amongst other things:

- i. the satisfaction or waiver of any outstanding conditions precedent relating to the Tranche One placement and completion of the Tranche One placement;
- ii. the Company obtaining shareholder approval for the issue of the shares under Tranche Two;
- iii. the Company's warranties as set out in the SSA are true and correct in all material respects as at immediately before completion of the Transaction; and
- iv. the Company obtaining any regulatory consents or approvals from any government agency that are necessary for the parties to perform their obligations under the SSA.

At the date of the Report, the conditions precedent relating to the Tranche One placement have been satisfied and the Tranche One placement has been completed. Each other condition precedent to the issue of the shares under Tranche Two remains outstanding.



## 4.2 Shareholding in Pilot Energy following the Transaction

The Subscribers' shareholding in Pilot Energy following the Transaction is set out in the table below.

Pilot Energy share structure following the Transaction	Billion Power	Sunpex	GS Energy	Austar	Other Shareholders	Total
<b>Prior to the Transaction</b>						
Issued shares as at the date of this Report	111,120,000	55,560,000	222,240,000	11,080,000	1,605,476,834	2,005,476,834
% holdings as at the date of this Report	5.54%	2.77%	11.08%	0.55%	80.05%	100.00%
<b>Following the Transaction</b>						
Shares to be issued as part of Tranche Two	259,260,000	129,627,000	518,507,000	25,946,000	-	933,340,000
Shares to be issued on exercise of the \$0.0030 Options	-	-	-	-	32,500,000	32,500,000
<b>Total shares to be issued following the Transaction</b>	<b>370,380,000</b>	<b>185,187,000</b>	<b>740,747,000</b>	<b>37,026,000</b>	<b>1,637,976,834</b>	<b>2,971,316,834</b>
<b>% holdings following the Transaction</b>	<b>12.47%</b>	<b>6.23%</b>	<b>24.93%</b>	<b>1.25%</b>	<b>55.13%</b>	<b>100.00%</b>

Source: BDO Analysis

At the date of this report, the Subscribers collectively hold 19.95% of the issued capital in the Company. The table above indicates that following the Transaction, GS Energy alone will hold 24.93% of the issued capital in the Company. The Subscribers are considered to be associates and we note that after the Transaction, the Subscribers will collectively hold 44.87% of the issued capital in the Company, as set out in the table below.

Pilot Energy share structure following the Transaction	The Subscribers	Other Shareholders	Total
<b>Prior to the Transaction</b>			
Issued shares as at the date of this Report	400,000,000	1,605,476,834	2,005,476,834
% holdings as at the date of this Report	19.95%	80.05%	100%
<b>Following the Transaction</b>			
Shares to be issued as part of Tranche Two	933,340,000	-	933,340,000
Shares to be issued on exercise of the \$0.0030 Options	-	32,500,000	32,500,000
<b>Total shares to be issued following the Transaction</b>	<b>1,333,340,000</b>	<b>1,637,976,834</b>	<b>2,971,316,834</b>
<b>% holdings following the Transaction</b>	<b>44.87%</b>	<b>55.13%</b>	<b>100.00%</b>

Source: BDO Analysis

We note that the Company currently has 125 million unlisted options which are exercisable at \$0.0020. We note that under resolutions 3 to 6 of the notice of meeting, the Company is seeking shareholder approval to cancel 80 million of these options. Approval of the resolutions will result in Pilot Energy having 45 million of these options remaining. Of the remaining 45 million options, 32.5 million vest upon the achievement of the five-day VWAP being equal to or exceeding \$0.0030 on or before 30 June 2019 (the '\$0.0030 Options'). The remaining 12.5 million vest upon the five-day VWAP being equal to or exceeding \$0.0060 on or before 30 June 2019 (the '\$0.0060 Options'). We consider the \$0.0030 Options will vest following completion of the Transaction and therefore have included the exercise of these options in the above analysis.

## 5. Profile of Pilot Energy

### 5.1 History

Pilot Energy, formerly Rampart Energy Limited (**'Rampart'**), was incorporated in February 2006 and officially listed on the ASX on 19 April 2006. The Company is focused on the exploration of oil and gas with both onshore and offshore projects in Western Australia. The current board members and company secretary of Pilot Energy are:

- Mr Gavin Harper, Executive Chairman;
- Mr Iain Smith, Executive Director;
- Mr Conrad Todd, Executive Director;
- Mr Rory McGoldrick, Executive Director;
- Mr Tung Leung (Benson) Wong, Executive Director; and
- Mr David McArthur, Company Secretary.

On 27 May 2013 the Company, under its former name Rampart, signed an agreement to acquire acreage in the petroleum producing North Slope of Alaska from Royale Energy, Inc. (**'Royale Energy'**). Under the transaction terms, the Company could acquire a 10% working interest by paying \$3.4 million in United States dollars (**'US\$'**) and a further 20% working interest by acquiring a 3D seismic survey over a number of areas, and a final 45% working interest by drilling, testing and completing two wells by 31 March 2015.

On 18 November 2014, the Company announced that it had secured rights to an 80% working interest, as operator, in the exploration permit WA-507-P located within the Northern Carnarvon Basin. This acquisition represented a change in the corporate strategy.

In mid-2015, the Company went through a corporate restructure where a revised company strategy was implemented. This revised strategy saw the disposal of the Company's 30% working interest in the Alaskan North Slope, thereby exiting Alaska entirely through a settlement with Royale Energy. On 28 September 2015, the Company announced that it had executed a Deed of Settlement and Mutual Release with Royale Energy. The settlement involved an agreement between both parties which released each other from all current and future claims relating to the Alaskan operations. Under the agreement, Pilot Energy assigned its 30% working interest in the Western Block leases to Royale Energy, in return for payment of up to US\$500,000. An initial payment of US\$150,000 was to be paid upon closing of the agreement, with a further US\$350,000 payable upon the earliest 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; or
- (iii) 31 December 2016; provided that Royale Energy 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.

On 10 December 2015, Pilot Energy announced that its settlement with Royale Energy had been completed with both parties releasing each other from all current and future claims relating to their dispute. As a result of the settlement, Pilot Energy received funds totalling US\$500,000 and has exited Alaska completely. The Company is currently in the process of dissolving its United States (**'US'**) subsidiary, Rampart Alaska LLC (**'Rampart Alaska'**).

Prior to the completion of Tranche One on 26 April 2016, the Company's most recent capital raising was announced on 9 June 2015. The offer involved an underwritten rights issue for eligible shareholders to subscribe for two new fully paid ordinary shares for every one fully paid ordinary share held, at a price of \$0.0010 per share, raising \$1,056,984 before costs.

On 26 April 2016, the Company announced the completion of Tranche One which resulted in the Company issuing 400 million shares in aggregate to the Subscribers at an issue price of \$0.0020 per share. Following completion of Tranche One, Mr Benson Wong was appointed to the position of Executive Director of Pilot Energy.

Set out below is a brief description of the Company's projects. For a full description of Pilot Energy's projects and details of the Company's work programme commitments see Appendix Three.

#### **Australia WA-507-P Exploration Permit (80% working interest as operator)**

The acquisition of WA-507-P was announced by the Company on 18 November 2014 and covers an area of 1,622 km<sup>2</sup> over the Exmouth Plateau, located approximately 300 km offshore Western Australia. The project area comprises structures which have potential to contain quantities of oil and gas in the Triassic Mungaroo reservoir. Pilot Energy is partnered in the exploration permit by Black Swan Resources Pty Ltd, which owns the remaining 20% interest in the permit.

The permit was granted for a six year term on 17 November 2014 which carries a commitment by the Company to conduct three years of geological and geophysical studies and licensing of the existing 3D seismic data. A discretionary well is also required to be drilled in or before the six year term.

On 22 December 2015, it was announced that the Company had agreed an extension of the payment due date in relation to the remaining US\$1,300,000 seismic data license cost for WA-507-P. Pilot Energy agreed to pay seismic provider TGS-NOPEC US\$250,000 in return for receiving a discount and deferral of the due date for the balance of payments to 31 December 2016 (from 18 February 2016). The net balance due after the discount will be US\$912,500.

#### **Australia WA-503-P Exploration Permit (80% working interest as operator)**

Pilot Energy announced the acquisition of WA-503-P on 30 March 2015 which is located offshore Western Australia within the Dampier Sub-basin. The permit is approximately 80 kilometres offshore Western Australia in water depths of no greater than 70 metres.

The exploration permit was awarded on 13 May 2014 and through an agreement with Neon Energy Ltd, Pilot Energy acquired an 80% working interest. The Company is partnered in the exploration permit by Black Swan Resources Pty Ltd, which owns the remaining 20% interest.

The exploration permit carries a six year term which involves a commitment to conduct three years of geological and geophysical studies, including the commitment to acquire 80 km<sup>2</sup> of new 3D seismic data across the permit.

#### **Australia EP416 and EP480 (60% working interest as operator)**

On 2 September 2015, the Company announced the execution of a farm-in agreement with Empire Oil & Gas NL ('**Empire**'). This agreement gave Pilot Energy rights to perform drilling and exploration within Empire's EP416 and EP480 exploration permits, located in the Perth Basin.

The permits cover a combined area of 2,310 km<sup>2</sup>, and have sparsely explored with two wells drilled in the 1960's and one well drilled in 2012 by the government as part of a carbon geosequestration study. Under

the terms of the agreement, Pilot Energy agreed to pay \$150,000 to fund Empire's recently completed airborne geophysical survey of the permits, with a further \$300,000 payable upon amendments to the permit terms being successfully negotiated.

On 23 February 2016, the Company announced results of the airborne geophysical survey acquired over the EP416 and EP480 exploration permits. These results confirmed the presence of two major depocentres for source maturity, representing potential for gas generation.

On 10 February 2016, Pilot Energy announced that the Western Australian Department of Mines and Petroleum had approved the transfer of title and operatorship to the Company pursuant to its agreement with Empire.

#### Australia EP437 (13.058% working interest)

On 4 November 2015, Pilot Energy announced the execution of a second Perth Basin acquisition with Caracal Exploration Pty Ltd ('Caracal'). This agreement involved the acquisition of Caracal's 13.058% interest in exploration permit EP437 which is located within the northern Perth Basin between the towns of Geraldton and Dongara. This area has a number of wells drilled within it, with results confirming a working petroleum system within the boundaries of the permit.

Under the terms of the acquisition, the consideration to be paid to Caracal for the interest is as follows:

- (i) \$15,000 cash payment;
- (ii) 20 million ordinary shares in Pilot Energy; and
- (iii) 20 million options to purchase ordinary shares of Pilot Energy, to be issued to Caracal upon completion of the agreement with an exercise price of \$0.0020, expiry of 30 June 2019. The options vest upon the condition that Pilot Energy's share price achieves a five-day volume weighted average price of \$0.0030.

On 20 April 2016, the Company announced that the Western Australian Department of Mines and Petroleum has approved the transfer of title to the Company, pursuant to its agreement with Caracal to acquire a 13.058% interest in the exploration permit EP437.

## 5.2 Historical Balance Sheet

Historical Statement of Financial Position	Audited as at 30-Sep-15 \$	Audited as at 30-Sep-14 \$	Audited as at 30-Sep-13 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	510,460	2,629,375	948,004
Trade and other receivables	89,072	42,723	39,157
Prepayments	35,881	79,784	56,416
Assets held in discontinued operations	606,202	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>1,241,615</b>	<b>2,751,882</b>	<b>1,043,577</b>
<b>NON CURRENT ASSETS</b>			
Trade debtors and other receivables	5,597	5,597	89,840
Restricted cash	-	1	1
Property and equipment	2,236	5,500	5,920
Oil and gas interests	462,249	10,598,721	2,253,122
<b>TOTAL NON CURRENT ASSETS</b>	<b>470,082</b>	<b>10,609,819</b>	<b>2,348,883</b>
<b>TOTAL ASSETS</b>	<b>1,711,697</b>	<b>13,361,701</b>	<b>3,392,460</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	355,846	1,359,685	312,257
Borrowings	8,482	7,498,400	-
Liabilities held in discontinued operations	1,163,063	-	-
<b>TOTAL CURRENT LIABILITES</b>	<b>1,527,391</b>	<b>8,858,085</b>	<b>312,257</b>
<b>TOTAL LIABILITIES</b>	<b>1,527,391</b>	<b>8,858,085</b>	<b>312,257</b>
<b>NET ASSETS</b>	<b>184,306</b>	<b>4,503,616</b>	<b>3,080,203</b>
<b>EQUITY</b>			
Issued capital	39,685,932	38,763,813	28,784,588
Reserves	853,504	1,756,384	1,474,211
Accumulated losses	(40,355,130)	(36,016,581)	(27,178,596)
<b>TOTAL EQUITY</b>	<b>184,306</b>	<b>4,503,616</b>	<b>3,080,203</b>

Source: Audited financial statements for the years ended 30 September 2015, 30 September 2014 and 30 September 2013

We note that for the year ended 30 September 2015, the Company's auditor issued an emphasis of matter paragraph in the audit report. The auditor outlined the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the requirements specified by the State Government. In addition, the commitments include the seismic licensing fee payable to TGS-NOPEC in relation to exploration permit WA-507-P. These obligations are classified as capital and other commitments and have not been included in the financial report for the year ended 30 September 2015.

We note the following in relation to Pilot Energy's historical statement of financial position:

- Cash and cash equivalents decreased from \$2,629,375 as at 30 September 2014 to \$510,460 as at 30 September 2015. This decrease can be primarily attributed to the receipt of Alaskan tax credits totalling \$8,835,924 and repayments of borrowings of \$9,551,795 as a result of the Company's discontinuation of its investment in the Alaskan Western Block lease during the year ended 30 September 2015.

- Trade and other receivables comprise Goods and Services Tax ('GST') and Pay As You Go ('PAYG') receivable amounts due from a director, deposits and bonds and restricted cash.
- Assets held in discontinued operations of \$606,202 as at 30 September 2015 relate to the assets allocable to Rampart Alaska, a wholly owned subsidiary, from the investment in the Alaskan Western Block which has since been discontinued. These assets include cash and cash equivalents and trade and other receivables relating to the discontinued project.
- Oil and gas interests decreased from \$10,598,721 as at 30 September 2014 to \$462,249 as at 30 September 2015. This decrease was primarily due to the \$11,856,641 in exploration and evaluation expenditure written off as a result of the Company discontinuing its operations in Alaska.
- Trade and other payables decreased from \$1,359,685 as at 30 September 2014 to \$355,846 as at 30 September 2015 as a result of the Company implementing corporate cost reduction measures as part of the restructure of the Company during the year ended 30 September 2015.
- Borrowings decreased from \$7,498,400 as at 30 September 2014 to \$8,482 as at 30 September 2015. This movement can be primarily attributed to Rampart Alaska closing out the Alaska Clear and Equitable Share ('ACES') based credit facility during the year ended 30 September 2015.
- Liabilities held in discontinued operations of \$1,163,063 as at 30 September 2015 relate to trade and other payables attributable to Rampart Alaska.

### 5.3 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Sep-15 \$	Audited for the year ended 30-Sep-14 \$	Audited for the year ended 30-Sep-13 \$
<b>Revenue</b>			
Revenue from continuing operations	11,903	21,474	6,066
Other income	-	19,644	-
<b>Expenses</b>			
Personnel expenses	(340,765)	(540,270)	(252,249)
Administrative expenses	(241,428)	(369,884)	(251,906)
Professional fees	(255,222)	(588,651)	(918,799)
Finance expenses	(1,899)	(1,017,791)	(20,655)
Exploration and evaluation expenditure impaired	(215,425)	(5,869,986)	(2,590,400)
Other expenses	(4,066)	(79,221)	(308,849)
<b>Loss before income tax expense</b>	<b>(1,046,902)</b>	<b>(8,424,685)</b>	<b>(4,336,792)</b>
Income tax expense	-	(413,300)	(77,258)
Loss for the year from continuing operations	(1,046,902)	(8,837,985)	(4,414,050)
Loss for the year from discontinued operations	(4,762,502)	-	-
<b>Loss for the year</b>	<b>(5,809,404)</b>	<b>(8,837,985)</b>	<b>(4,414,050)</b>
<b>Other comprehensive income</b>			
Foreign currency translation	379,358	(7,037)	1,481
<b>Total comprehensive profit/(loss) for the year</b>	<b>(5,430,046)</b>	<b>(8,845,022)</b>	<b>(4,412,569)</b>

Source: Audited financial statements for the years ended 30 September 2015, 30 September 2014 and 30 September 2013

We note the following in relation to Pilot Energy's historical statement of profit or loss and other comprehensive income:

- Revenue from continuing operations is attributable to interest income on deposits, with the decrease from 30 September 2014 to 30 September 2015 arising from a reduction in cash held.
- Other income of \$19,644 for the year ended 30 September 2014 relates to an insurance refund received.
- Personnel expenses decreased from \$540,270 for the year ended 30 September 2014 to \$340,765 for the year ended 30 September 2015. This decrease is mainly due to the decrease in directors' remuneration as part of the restructure of the Company during the year ended 30 September 2015.
- Finance expenses decreased from \$1,017,791 for the year ended 30 September 2014 to \$1,899 for the year ended 30 September 2015. This decrease relates to Rampart Alaska closing out the ACES based credit facility during the year ended 30 September 2015.
- Exploration and evaluation expenditure impaired of \$5,869,986 for the year ended 30 September 2015 relates to the North Slope project as a result of project drilling delays.
- Loss from discontinued operations of \$4,762,502 for the year ended 30 September 2015 relates to the Company's discontinuation of its investment in the Alaskan Western Block leases. The loss is largely attributable to exploration and expenditure of \$11,641,216 written off, interest expense and transaction costs in relation to its ACES credit facility of \$1,363,192. This was partially offset by the receipt of Alaskan tax credits totalling \$8,645,230.

## 5.4 Capital Structure

The share structure of Pilot Energy as at 27 April 2016 is outlined below:

	Number of shares
Total ordinary shares on issue	2,005,476,834
Top 20 shareholders	988,850,415
Top 20 shareholders - % of shares on issue	49.31%

Source: Share registry information

The range of shares held in Pilot Energy as at 27 April 2016 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	195	81,986	0.01%
1,001 - 5,000	233	545,751	0.03%
5,001 - 10,000	137	997,067	0.06%
10,001 - 100,000	396	18,081,741	1.15%
100,001 - and over	799	1,985,770,289	98.75%
<b>TOTAL</b>	<b>1,760</b>	<b>2,005,476,834</b>	<b>100.00%</b>

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 27 April 2016 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
GS Energy Pty Ltd	222,240,000	11.08%
Billion Power Capital Investment Limited	111,120,000	5.54%
Pershing Australia Nominees Pty Ltd	99,000,000	4.94%
Mr Gavin Harper and associates	79,060,114	3.94%
Conrad Todd	68,000,000	3.39%
<b>Total</b>	<b>579,420,114</b>	<b>28.89%</b>

Source: Share registry information

Pilot Energy has the following options on issue:

	Number
Unlisted options exercisable on or before 31 July 2016 at \$0.0675	25,500,069
Unlisted options exercisable on or before 30 September 2016 at \$0.12	10,083,334
Unlisted options exercisable on or before 31 October 2016 at \$0.12	12,500,000
Unlisted options exercisable on or before 31 September 2017 at \$0.03	10,000,000
Unlisted options exercisable on or before 30 June 2019 at \$0.002	125,000,000

Source: Appendix 5B dated 29 April 2016



## 6. Profile of the Subscribers

The Subscribers under the SSA are comprised of the following four Australian and Hong Kong private companies which have a joint purpose of investing in Australian oil and gas businesses.

Company	Country of incorporation	Principals
Billion Power Capital Investment Limited	Hong Kong	Hui Xiong (Wilson) Xue, Zhihong Huang
Sunpex International Limited	Hong Kong	Tung Leung (Benson) Wong, Shaoling Wang
GS Energy Pty Ltd	Australia	Lu Chen
Austar Nominees Pty Ltd	Australia	Dr Xingjin Wang

The Subscribers and the key principals of the Subscribers have had a working relationship for a number of years. Prior to entering into the SSA with the Company, the Subscribers had made joint investments in Australian businesses and had together considered a number of investment opportunities. The Subscribers collectively negotiated their investment in the Company and, notwithstanding that each are individual shareholders, they intend to exercise their rights as shareholders in consultation with each other. Shortly after completion of the Tranche One placement, the Subscribers entered into a co-operation agreement which provides a framework as to how each of them will exercise their rights as shareholders.

The Subscribers are deemed to be “associates” of each other by operation of section 12(1)(a) and sections 12(2)(b) and (c) of the Act. This is on the basis that the Subscribers are party to a relevant agreement for the purposes of section 12(2) (b) of the Act, being the co-operation agreement, and separately the Subscribers propose to act in concert in relation to their investment in the Company.

Under the terms of the SSA, the key principals of the Subscribers will be appointed to various positions within Pilot Energy. The profiles of these key principals behind the Subscribers are summarised below.

### *Mr Benson Wong ( Executive Director and Chief Financial Officer commencing 28 April 2016)*

Mr Benson Wong is a management finance specialist who has fourteen years’ senior managerial experience and over six years’ experience in directorship roles. This includes being Executive Director of a Singapore Exchange Limited company, China Flexible Packaging Holdings Limited. Mr Benson Wong holds a Master’s Degree in Commerce from the University of New South Wales and is an Associate Member of Certified Practising Accountants Australia.

### *Mr Wilson Xue (proposed Non-Executive Director)*

Mr Wilson Xue is an entrepreneur and businessman with twenty-five years’ experience in senior management roles. Mr Wilson Xue has experience in the manufacturing, wholesale, retail, construction and resources sector.

### *Dr Xingjin Wang (proposed Advisor)*

Dr Xingjin Wang is a petroleum engineer with over twenty-five years’ international experience in petroleum exploration and production. Dr Xingjin Wang is an Honorary Professor at the University of Queensland and Professor at the China University of Geoscience. Dr Xingjin Wang has experience in the petroleum basins of Australia, and was previously part of senior management within Arrow Energy Holdings Australia Pty Ltd.

## 7. Economic analysis

### Global outlook

Overall, the economy is continuing to grow, though at a slightly slower pace than earlier expected, with forecast having been revised down a little further recently. Although several advanced economies have seen improved growth over the past year, conditions have become more difficult for a number of emerging market economies. Key commodity prices have significantly declined over the past few years as a result of increased supply and weaker demand.

In China, economic activity has eased and the growth rate has continued to moderate following the Government's stimulus plan, which will see China shift away from an economy dependent on manufacturing, to one driven by consumer demand. China's demand for commodities such as crude oil, steel, coal and other raw materials have decreased, therefore affecting the global economy.

Global financial markets have seen improved sentiment, following a period of increased volatility. However, uncertainty regarding the global economic outlook and policy settings for major jurisdictions continues. Globally, monetary policy remains accommodative.

### Australia

The Australian economy seems to be continuing to rebalance off the end of the mining investment boom. Over 2015, overall GDP growth seemed to pick up, along with an increasingly healthy labour market. Lending to businesses picked up, which was reflected in healthy labour market conditions. The inflation rate remains low in Australia, along with other parts of the world. This is likely to continue over the next few years with the help of restrained labour costs.

### Commodity prices

Commodity prices have increased slightly recently, however they are still much lower than that of a few years ago. Trade from the Australian economy remains much lower than it has been in recent years. Prices tend to rely on demand, in particular from the Chinese industrial sector, along with the response to changes in supply. Due to low oil prices, producers of bulk commodities have in general have been reducing their cost of production, as oil is an important input for the transportation of these commodities. However, the ability for these producers to keep on reducing their costs is unlikely and may lead to firms exiting the market.

### Financial markets

The financial markets have seemed to improve after experiencing high levels of volatility over the past few months. The uncertainty about the global economic outlook and policy settings tend to have participants spooked. However, funding costs for high-quality borrowers remain low and monetary policy around the globe remains generous.

### Interest rates

Credit is recording moderate growth overall. Low interest rates are acting to support borrowing and spending. Growth in lending to the housing market has broadly been steady over recent months. Dwelling prices continue to remain steady in Sydney and Melbourne, and has remained quiet in other cities around the country.

## Australian dollar

The Australian dollar has appreciated recently, despite its noticeable declines against the US dollar over the past year. This in part reflects rises in commodity prices, along with monetary developments globally having a positive impact. Due to current economic circumstances, a strengthening exchange rate could complicate the adjusting economy.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Glenn Stevens, Governor: Monetary Policy Decision 3 May 2016

## Implications for Pilot Energy

The heightened volatility currently exhibited within financial markets in Australia may impact Pilot Energy with participants seeming increasingly uncertain about future prospects. Risk appetite has also diminished, and funding conditions for lesser-rated corporations have tightened. Furthermore, the fall in oil prices as a result of increased competition between major oil players may also prove difficult for junior oil and gas explorers to attract funding to continue their exploration commitments.

## 8. Industry analysis

### 8.1 Overview of the oil and gas exploration industry

The oil and gas industry represents an integral part of the overall Australian economy; with resources such as coal, uranium and natural gas supplied both domestically and internationally. Companies who operate within the oil and gas exploration industry provide both onshore and offshore drilling and exploration services. Larger corporates who have integrated, global operations normally operate on a larger scale, whilst smaller junior exploration companies are more active at the smaller end of the industry. In Australia, major companies include Woodside Petroleum Limited, Santos Limited, Chevron Australia Holdings Proprietary Limited and Shell Energy Holdings Australia Limited, with no participants holding market shares greater than five percent.

### 8.2 Key external drivers

The most influential external drivers which impact upon the operations of oil and gas exploration companies include, but are not limited to, US dollars per Australian dollar, world price of natural gas and world price of crude oil.

The strength of the Australian dollar against the US dollar is an important key external driver for the industry. When the Australian dollar appreciates against the US dollar, oil and gas extraction companies generate a lower level of income for their oil and gas reserves. For junior explorers, this means that future exploration activities may be restricted. However, the Australian dollar is forecast to depreciate against the US dollar in 2016, which may assist companies who operate within the industry.

The world price of natural gas and crude oil are also important key external drivers. As the world price of natural gas increases, the incentive to explore for unproven gas resources also heightens. In regards to the world crude oil price, a decrease in the price leads to limited oil and gas exploration activities as the financial incentives of extracting prospective oil resources decline. For junior explorers, these effects may be magnified as their scales of operations are smaller compared to larger firms who occupy a larger percentage of the industry's market share. Furthermore, firms who are purely exploration companies may struggle to attract funds, as oil and gas companies focus on maximising production at existing facilities.

### 8.3 Price trends

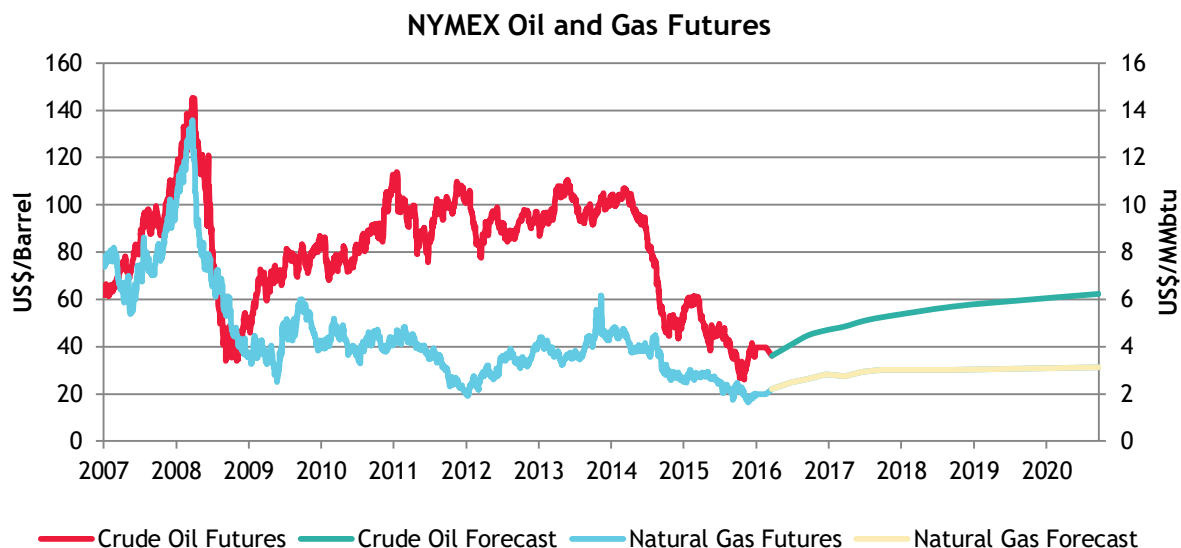
Prior to the 2008 global financial crisis, crude oil and natural gas prices began to soar due to the decrease in spare capacity, alongside strong speculation in the futures market. In the six months from June 2008 onwards, the price of oil peaked at approximately US\$140 a barrel and then plummeted towards a low of US\$30 a barrel due to reduced demand and accumulated stockpiles.

Supply and demand factors are an important factor in driving fluctuations in oil and gas prices. For example, meetings held by the Organisation of Petroleum Exporting Countries ('OPEC') to determine short term oil supply are often followed by periods of volatile price movements. Following an OPEC cut of 4.2 million b/d in January 2009, as well as increased demand in Asia, oil prices began to rise. In February 2011, prices increased further following the loss of Libyan exports due to the Libyan civil war. This unrest caused major concerns amongst Middle Eastern and North African producers, therefore supporting the oil price during this period.

Between 2007 and 2010 there was a high correlation between the oil and natural gas prices, however 2011 saw a divergence of both prices. This divergence can be attributed to large developments in shale gas production, leading to discounts in natural gas prices.

During 2015, there was a significant fall in the world price of crude oil due to various contributing factors. One factor included Iran's return to the international oil market, following the lifting of sanctions against the country under an international agreement. In addition to this, the United States almost doubled their domestic production, with imports forced to find another market. This meant that Saudi Arabian, Nigerian and Algerian oil that was first sold in the US market, was suddenly competing for Asian markets and as a result, producers were forced to cut prices.

Currently, oil and natural gas prices are at a historical low. Recent impacts of this included shelved or discontinued projects; one example being Woodside Limited's Bourse floating LNG project which has been put on hold due to the current economic environment. Forecasts for both prices are, however, predicting a similar upwards trend from 2016 to 2020.



Source: Bloomberg and Consensus Economics

## 8.4 Outlook

Oil and gas continue to remain key sources of energy growth, despite significant changes occurring in the global economy. Energy consumption is forecast to increase between 2015 and 2035 due to expected growth of the world economy and growing population, further supporting increased revenue. Production volumes are also expected to increase, which may be attributed to a number of projects that are nearing completion or which have recently commenced operations.

Over the long run, shifts in global supply and demand are expected to restrict the overall growth in global commodity prices. Over the medium term, oil prices are expected to remain relatively low due to the potential of increased supply from Iran coupled with weakening economic conditions in China as the Chinese economy becomes less dependent on highly energy-intensive industrial sectors. In regards to natural gas, recent information suggests a weakness in global growth. However, this weakness is not expected to persist as strong supply growth, combined with stronger environmental policies, will allow gas to have a stronger competitive position against its substitutes.

Source: IBISWorld Petroleum Exploration in Australia 2016

## 9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix Two.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of Pilot Energy shares we have chosen to employ the following methodologies:

- NAV on a going concern basis as our primary valuation methodology; and
- QMP as our secondary valuation methodology.

We have chosen these methodologies for the following reasons:

- Being an exploration company, the core value of Pilot Energy is in the exploration assets it holds. We have instructed RISC Operations Pty Ltd ('RISC') to act as independent specialist and to provide an independent market valuation of the Company's exploration assets in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 ('the Valmin Code'). RISC's full report may be found in Appendix Three. We have considered this in the context of Pilot Energy's other assets and liabilities on a NAV basis;
- The QMP basis is a relevant methodology to consider because Pilot Energy's shares are listed on the ASX. This means there is a regulated and observable market where Pilot Energy's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the Company's

shares should be liquid and the market should be fully informed as to its activities. We have considered these factors in section 10.2 of our Report;

- Pilot Energy does not generate regular trading income. Therefore there are no historic profits that could be used to represent future earnings. This means that the FME valuation approach is not appropriate; and
- Pilot Energy has no foreseeable future net cash inflows and therefore the application of the DCF valuation approach is not appropriate.

In our assessment of the value of Pilot Energy shares following the Transaction we have chosen to employ the following methodology:

- NAV as our primary valuation methodology.

The net asset value of Pilot Energy shares following the Transaction will involve the following items:

- The value of Pilot Energy prior to the Transaction;
- Incorporate the effects of the Transaction in the context of Pilot Energy's other assets and liabilities on a NAV basis; and
- The number of shares on issue will incorporate the shares to be issued as part of the Transaction.

## 10. Valuation of Pilot Energy prior to the Transaction

### 10.1 Net Asset Valuation of Pilot Energy

The value of Pilot Energy assets on a going concern basis is reflected in our valuation below:

	Notes	30-Sep-15 \$	Low value \$	Preferred value \$	High value \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	1	510,460	1,102,043	1,102,043	1,102,043
Trade and other receivables		89,072	89,072	89,072	89,072
Prepayments		35,881	35,881	35,881	35,881
Assets held in discontinued operations	2	606,202	87,799	87,799	87,799
<b>TOTAL CURRENT ASSETS</b>		<b>1,241,615</b>	<b>1,314,795</b>	<b>1,314,795</b>	<b>1,314,795</b>
<b>NON CURRENT ASSETS</b>					
Trade debtors and other receivables		5,597	5,597	5,597	5,597
Property and equipment		2,236	2,236	2,236	2,236
Oil and gas interests	3	462,249	11,599,100	20,178,900	28,758,600
<b>TOTAL NON CURRENT ASSETS</b>		<b>470,082</b>	<b>11,606,933</b>	<b>20,186,733</b>	<b>28,766,433</b>
<b>TOTAL ASSETS</b>		<b>1,711,697</b>	<b>12,921,728</b>	<b>21,501,528</b>	<b>30,081,228</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	4	355,846	133,793	133,793	133,793
Borrowings	5	8,482	-	-	-
Liabilities held in discontinued operations	6	1,163,063	8,385	8,385	8,385
<b>TOTAL CURRENT LIABILITES</b>		<b>1,527,391</b>	<b>142,178</b>	<b>142,178</b>	<b>142,178</b>
<b>TOTAL LIABILITIES</b>		<b>1,527,391</b>	<b>142,178</b>	<b>142,178</b>	<b>142,178</b>
<b>NET ASSETS</b>		<b>184,306</b>	<b>12,779,550</b>	<b>21,359,350</b>	<b>29,939,050</b>
Shares on issue (number)	7	1,585,476,834	2,037,976,834	2,037,976,834	2,037,976,834
Value per share (\$)			\$0.0063	\$0.0105	\$0.0147

Source: BDO analysis

We have been advised that there has not been a significant change in the net assets of Pilot Energy since 30 September 2015 apart from those discussed below. Other than where we have adopted different values we have assumed that the fair market value of the assets and liabilities as at 30 September 2015 are equal to their carrying values as set out in the above statement of financial position. The table above indicates the net asset value of a Pilot Energy share is between \$0.0063 and \$0.0147.

The following adjustments were made to the net assets of Pilot Energy as at 30 September 2015 in arriving at our valuation.

#### Note 1: Cash and cash equivalents

We have adjusted cash and cash equivalents for the significant movements in cash since 30 September 2015. The significant movements primarily relate to the cash received from discontinued operations, exploration and evaluation expenditure, funds received from Tranche One and funds to be received under the exercise of the \$0.003 Options.

On 10 December 2015, Pilot Energy announced that it has received funds totalling approximately \$480,000 subsequent to the sale by Royale Energy of its 100% interest in the Western Block, North Slope Alaska.

Since 30 September 2015, the Company has incurred exploration, evaluation and development expenditure of approximately \$730,000. This expenditure comprised primarily of the initial payment of \$150,000 to Empire for the acquisition of EP416 and EP480, the US\$250,000 (approximately \$330,000) payment to TGS-

NOPEC for the seismic license at WA-507-P and the \$15,000 cash payment for the acquisition of a 13.058% interest in exploration permit EP437 to Caracal.

On 26 April 2016, Pilot Energy announced that it had issued 400 million shares at \$0.0020 per share to the Subscribers under Tranche One to raise \$800,000. Transaction costs connected with Tranche One were approximately \$50,380.

We note that the Company currently has 125 million unlisted options which are exercisable at \$0.0020. We note that under resolutions 3 to 6 of the notice of meeting, the Company is seeking shareholder approval to cancel 80 million of these options. Approval of the resolutions will result in Pilot Energy having 45 million of these options remaining. Of the remaining 45 million options, 32.5 million vest upon the achievement of the five-day VWAP being equal to or exceeding \$0.0030 on or before 30 June 2019. The remaining 12.5 million vest upon the five-day VWAP being equal to or exceeding \$0.0060 on or before 30 June 2019. We consider the \$0.0030 Options will vest following completion of the Transaction and therefore have included the exercise of these options in the above analysis.

As part of the cancellation of 80 million options under resolutions 3 to 6, if these resolutions are passed, the Company will pay a total of \$80,000 as consideration to these option holders. We have adjusted the option cancellation fee of \$80,000 to cash and cash equivalents.

#### Note 2: Assets held in discontinued operations

We have adjusted assets held in discontinued operations to reflect the Company's balance at 29 February 2016. The decrease is primarily a result of the settlement of the Royale Energy mutual agreement and the Company exiting Alaska completely.

#### Note 3: Valuation of Pilot Energy's oil and gas interests

We instructed RISC to provide an independent market valuation of the exploration assets held by Pilot Energy. RISC considered a number of different valuation methods when valuing the exploration assets of Pilot Energy. In valuing Pilot Energy's exploration assets, RISC considered the DCF methodology to be inappropriate due to the early stage of the mineral asset and elected to apply the comparable transactions method where they exist and notional farm-in terms by a potential farmee into the assets.

We are satisfied with the valuation methodologies adopted by RISC which are in accordance with industry practices and compliant with the requirements of the Valmin Code. The range of values for each of Pilot Energy's exploration assets as calculated by RISC is set out below:

Exploration assets valuation	Low value US\$m	Midpoint value US\$m	High value US\$m
WA-507-P	3.0	14.5	29.0
WA-503-P	0.6	1.2	13.2
EP416 & EP 480	0.3	0.3	0.3
EP437	0.0	0.1	0.2
Pilot Energy's Exploration Permit Value	3.9	16.2	42.8
<b>Pilot Energy's interest in exploration assets on a portfolio basis (A\$:US\$: 0.7576)</b>	<b>9.70</b>	<b>16.20</b>	<b>22.70</b>
<b>Pilot Energy's interest in exploration assets on a portfolio basis - (A\$)</b>	<b>12.80</b>	<b>21.38</b>	<b>29.96</b>

Source: RISC's Independent Technical Specialist Report for Pilot Energy Limited May 2016 (Appendix Three)



RISC has determined the low and high values of the portfolio of exploration assets at an estimated one standard deviation from the total midpoint value of the portfolio.

The table above indicates RISC has determined a range of values between \$12.80 million and \$29.96 million, with a midpoint value of \$21.38 million.

The value of Pilot Energy's exploration assets on a portfolio basis determined by RISC incorporates the acquisition of the 3D seismic licensing data from TGS-NOPEC for US\$1,300,000 in relation to exploration permit WA-507-P. As outlined in section 5, the Company has a remaining balance payable to TGS-NOPEC of US\$912,500. We have therefore deducted this amount from RISC's value of Pilot Energy's exploration assets portfolio, as set out in the table below.

Exploration assets valuation	Low value US\$m	Midpoint value US\$m	High value US\$m
Pilot Energy's interest in exploration assets on a portfolio basis	9.70	16.20	22.70
Less: TGS-NOPEC 3D seismic data licensing fee	(0.91)	(0.91)	(0.91)
<b>Pilot Energy's interest in exploration assets on a portfolio basis</b> (A:\$US: 0.7576)	<b>8.79</b>	<b>15.29</b>	<b>21.79</b>
<b>Pilot Energy's interest in exploration assets on a portfolio basis - (A\$)</b>	<b>11.60</b>	<b>20.18</b>	<b>28.76</b>

Source: RISC's Independent Technical Specialist Report for Pilot Energy Limited May 2016 and BDO Analysis.

Therefore, the range of values for the Company's exploration assets on a portfolio basis is between \$11.60 million and \$28.76 million, with a midpoint value of \$20.18 million.

RISC's independent valuation report can be found at Appendix Three.

#### Note 4: Trade and other payables

We have adjusted trade and other payables to reflect the movements since 30 September 2015. This primarily relates to the \$150,000 payment to Empire for the acquisition of EP416 and EP480.

#### Note 5: Borrowings

Borrowings of \$8,482 at 30 September 2015 relate to a premium funding facility. Following the settlement of the Royale Energy mutual agreement and the Company exiting out of Alaska completely, Pilot Energy has since closed its premium funding balance which we have reduced to nil.

#### Note 6: Liabilities held in discontinued operations

Liabilities held in discontinued operations relate to trade and other payables attributable to the disposal group of Rampart Alaska. Following settlement of the Royale Energy mutual agreement, US\$770,514 (approximately \$1,104,522) of the amount recorded in the trade and other payables has been forgiven. We have therefore adjusted the liabilities held in discontinued operations to reflect the movements since 30 September 2015 which primarily relate to the reversal of trade creditors.

#### Note 7: Number of shares on issue

We have adjusted the number of shares on issue as result of the acquisition of exploration permit EP437 from Caracal, the shares issued to the Subscribers under Tranche One and the shares to be issued on the exercise of 32.5 million of the \$0.0030 Options, as set out below.

Shares on issue	Number
Shares on issue at 30-Sep-15	1,585,476,834
Shares issued in connection with the acquisition of exploration permit EP437	20,000,000
Shares issued under Tranche One	400,000,000
Shares to be issued on exercise of the \$0.0030 Options	32,500,000
Shares on issue prior to the Transaction	2,037,976,834

Under the terms of the sale and purchase agreement with Caracal, Pilot Energy issued 20 million ordinary shares in Pilot Energy as part of consideration. On 26 April 2016, the Company announced that it had issued 400 million shares to the Subscribers at \$0.0020 per share following completion of Tranche One.

We note that the Company currently has 125 million unlisted options which are exercisable at \$0.0020. We note that under resolutions 3 to 6 of the notice of meeting, the Company is seeking shareholder approval to cancel 80 million of these options. Approval of the resolutions will result in Pilot Energy having 45 million of these options remaining. Of the remaining 45 million options, 32.5 million vest upon the achievement of the five-day VWAP being equal to or exceeding \$0.0030 on or before 30 June 2019. The remaining 12.5 million vest upon the five-day VWAP being equal to or exceeding \$0.0060 on or before 30 June 2019. We consider the \$0.0030 Options will vest prior to the completion of the Transaction and therefore have included the exercise of these options in the above analysis.

## 10.2 Quoted Market Prices for Pilot Energy Securities

To provide a comparison to the valuation of Pilot Energy in Section 10.1, we have also assessed the quoted market price for a Pilot Energy share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of section 611 of the Act the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

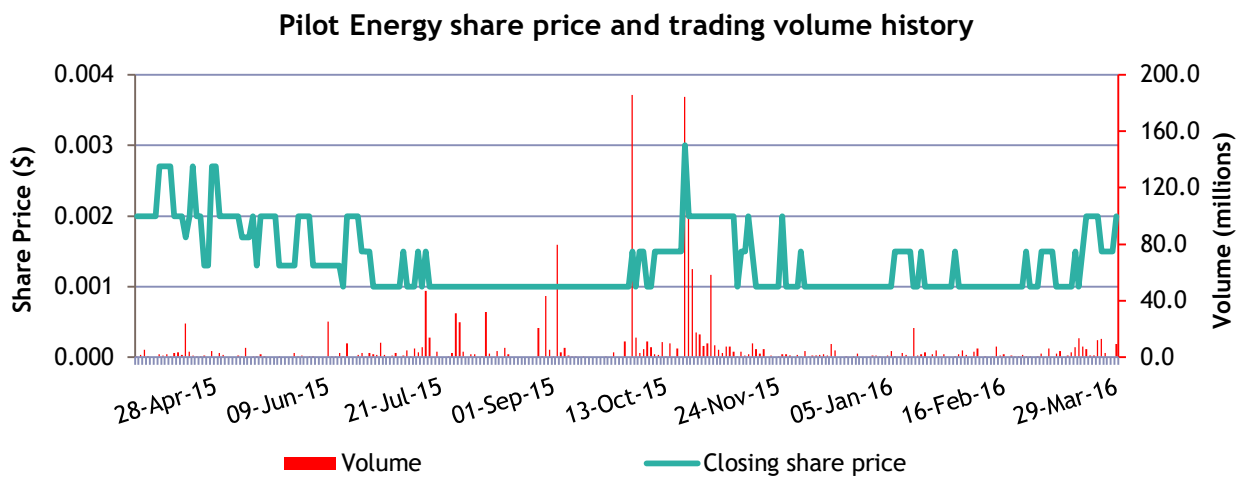
Whilst the Subscribers will not be obtaining 100% of Pilot Energy, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can consider amongst other things, an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 13.

Therefore, our calculation of the quoted market price of a Pilot Energy share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

### Minority interest value

Our analysis of the quoted market price of a Pilot Energy share is based on the pricing prior to the announcement of the Transaction. This is because the value of a Pilot Energy share after the announcement may include the effects of any change in value as a result of the Transaction being announced. However, we have considered the value of a Pilot Energy share following the announcement of the Transaction when we have considered reasonableness in Section 13.

Information on the Transaction was announced to the market on 31 March 2016 however Pilot Energy's shares had been in a trading halt from 30 March 2016. Therefore, the following chart provides a summary of the share price movement over the 12 months to 29 March 2016 which was the last trading day prior to the announcement of the Transaction.



Source: Bloomberg

The daily price of Pilot Energy shares from 31 March 2015 to 29 March 2016 has ranged from a low of \$0.0010 on 23 April 2015 to a high of \$0.0030 on 20 October 2015. The share price of Pilot Energy has been extremely volatile with the period March 2015 to July 2015 exhibiting a downwards trend. Following this period the share price remained at \$0.0010 before peaking to \$0.0030 on 20 October 2015. The highest single day of trading was on 30 September 2015 where 185,743,930 shares were traded, representing approximately 12.1% of total volume for the period. On 20 October 2015, Pilot Energy's share price peaked to \$0.0030 which saw the second highest single day of trading where 184,201,305 shares were traded.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement		Closing Share Price Three Days After Announcement	
		\$ (movement)		\$ (movement)	
03/03/2016	WA-503-P Prospective Resources Update	0.0015	▶ 0.0%	0.0010	▼ 33.3%
23/02/2016	EP416 & EP480 Airborne Geophysical Survey Results	0.0010	▶ 0.0%	0.0010	▶ 0.0%
10/02/2016	EP416 & EP480 DMP Approval	0.0010	▶ 0.0%	0.0010	▶ 0.0%
22/12/2015	Deferral of WA-507-P Seismic Cost	0.0010	▶ 0.0%	0.0010	▶ 0.0%
11/11/2015	Sale of Western Block by Royale Energy	0.0015	▶ 0.0%	0.0010	▼ 33.3%

Date	Announcement	Closing Share Price Following Announcement			Closing Share Price Three Days After Announcement		
		\$ (movement)			\$ (movement)		
04/11/2015	Second Perth Basin Acquisition	0.0020	▶	0.0%	0.0010	▼	50.0%
20/10/2015	Significant Oil Potential Confirmed in WA-507-P	0.0030	▲	100.0%	0.0020	▼	33.3%
28/09/2015	Settlement with Royale Energy	0.0010	▶	0.0%	0.0010	▶	0.0%
02/09/2015	Perth Basin Acquisition	0.0010	▶	0.0%	0.0010	▶	0.0%
27/08/2015	WA-503-P Work Program Variation Approved	0.0010	▶	0.0%	0.0010	▶	0.0%
13/07/2015	Rampart Corporate Update	0.0015	▲	50%	0.0010	▼	33%
08/07/2015	Alaskan Litigation Update	0.0010	▼	33%	0.0015	▲	50%
12/06/2015	Assignment of WA-503-P Approved	0.0013	▶	0%	0.0020	▲	54%
10/06/2015	Entitlement Issue Prospectus	0.0013	▶	0%	0.0010	▼	23%
09/06/2015	Underwritten Rights Issue	0.0013	▶	0%	0.0013	▶	0%

Source: Bloomberg

On 10 June 2015, the Company released an Entitlement Issue Prospectus. This followed the announcement on the previous day regarding a pro rata renounceable rights issue for eligible shareholders to subscribe for two new fully paid ordinary shares for every one fully paid ordinary share held at \$0.0010 per share. On the day of the release of the prospectus the Company's share price remained unchanged; however in the subsequent three days the share price decreased by 23% from \$0.0013 to \$0.0010.

On 12 June 2015, the Company announced that the National Offshore Petroleum Titles Administrator ('NOPTA') granted the transfer of an 80% working interest in exploration permit WA-503-P. On the day of the announcement the Company's share price remained unchanged; however in the subsequent three days the share price of the Company increased by 54% to \$0.0020.

On 8 July 2015, the Company provided a litigation update in relation to the Alaskan operations with Royale Energy. In this update, the Company advised that the 60-day period for suspension of litigation with Royale Energy had expired, without the reaching of a commercial settlement. This meant that the litigation process had re-commenced. On the day of this announcement, the share price decreased by 33% to \$0.0010. However, in the three days subsequent to the announcement, the share price of the Company increased by 50% to \$0.0015.

On 20 October 2015, the Company released an announcement detailing the results of an independent audit of prospective oil resources for its WA-507-P exploration permit. These results confirmed the potential for oil discoveries. On the day of the announcement, Pilot Energy's share price increased by 100% to \$0.0030 however fell to \$0.0020 in the three days subsequent.

On 4 November 2015, the Company released an announcement regarding the acquisition of a 13.058% interest in exploration permit EP437 with Caracal. On the day of the announcement, the share price remained unchanged. However, in the three days subsequent to the announcement the share price fell by 50% to \$0.0020.

On 11 November 2015, the Company announced that Royale Energy had agreed on a sale of its 100% interest in the Western Block to an undisclosed third party. Under the terms of the Deed of Settlement and Mutual Release between Pilot Energy and Royale Energy, a US\$350,000 cash payment was payable to the Company. On the day of the announcement, the Company's share price remained unchanged. However, on the three days subsequent to the announcement it declined by 33.3% from \$0.0015 to \$0.0010.

To provide further analysis of the market prices for a Pilot Energy share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 29 March 2016.

Share Price per unit	29-Mar-16	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.0015				
Volume weighted average price (VWAP)		\$0.0015	\$0.0015	\$0.0013	\$0.0013

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Transaction, to avoid the influence of any increase in price of Pilot Energy shares that has occurred since the Transaction was announced.

An analysis of the volume of trading in Pilot Energy shares for the six months to 29 March 2016 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.0015	\$0.0015	9,107,500	0.57%
10 Days	\$0.0010	\$0.0020	52,412,500	3.26%
30 Days	\$0.0010	\$0.0020	97,379,070	6.07%
60 Days	\$0.0010	\$0.0020	167,277,783	10.42%
90 Days	\$0.0010	\$0.0020	211,361,026	13.16%
180 Days	\$0.0010	\$0.0030	1,305,925,403	81.34%
1 Year	\$0.0010	\$0.0033	1,534,916,179	95.60%

Source: Bloomberg, BDO analysis

This table indicates that Pilot Energy's shares display a high level of liquidity, with 95.60% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Pilot Energy, we consider there to be a deep market for the Company's shares as a result of 81.34% of the Company's issued capital being traded over the six months prior to the announcement of the Transaction.

Our assessment is that a range of values for Pilot Energy shares based on market pricing, after disregarding post announcement pricing, is between \$0.0010 and \$0.0020.

## Control Premium

We have reviewed the control premiums paid by acquirers of both general mining and oil and gas companies listed on the ASX. We have summarised our findings below:

### General mining companies

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2015	13	189.42	25.11
2014	15	108.84	34.85
2013	18	44.46	49.25
2012	20	129.36	44.61
2011	21	605.51	40.47
2010	25	735.82	43.27
2009	28	84.25	41.85
2008	8	553.76	38.87
	<b>Mean</b>	<b>272.38</b>	<b>35.36</b>
	<b>Median</b>	<b>129.36</b>	<b>40.47</b>

Source: Bloomberg and BDO analysis

### Oil and gas companies

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2015	7	49.74	19.48
2014	7	427.85	50.69
2013	7	29.62	40.50
2012	9	70.64	37.93
2011	11	951.02	31.64
2010	11	877.95	51.45
2009	7	585.89	45.83
2008	10	365.11	66.36
	<b>Mean</b>	<b>373.09</b>	<b>38.21</b>
	<b>Median</b>	<b>365.11</b>	<b>40.50</b>

Source: Bloomberg and BDO analysis

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the transaction;
- Level of liquidity in the trade of the acquiree's securities.

The tables above indicate that there has been a general decreasing trend of control premiums paid by acquirers within the last year. The long term average of announced control premium paid by acquirers of general mining and energy companies in Australia is in excess of 35% and 38%, respectively. In assessing the sample of transactions for general mining and oil and gas, which were included in the table, we've noted transactions within the list which appear to be extreme outliers.

For general mining companies, these outliers include 13 transactions where the announced control premium was in excess of 100% and 17 transactions where the acquirer obtained a controlling interest at a discount (i.e. less than 0%). In a sample where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean.

Subject to shareholder approval and completion of the Transaction under the SSA, the Subscribers will collectively hold 44.87% of the issued capital in the Company. To determine an appropriate control premium to apply in our valuation of Pilot Energy's shares we have taken the following considerations into account:

- Pilot Energy's auditor issued an emphasis of matter paragraph in the audited financial accounts for the period ended 30 September 2015. The auditor outlined the existence of a material uncertainty in relation to the Company's ability to continue as a going concern. The Company's current financial situation may therefore impact the likely premium that an acquirer would pay to acquire the Company; and
- The Company is in its exploration phase and has a smaller scale of operations than a number of the sample companies determined above. We note that larger companies and transactions tended to have a higher control premium.

Taking the factors above into consideration in applying a control premium to Pilot Energy's quoted market share price we believe an appropriate range to be between 25% and 35%.

### Quoted market price including control premium

Applying a control premium to Pilot Energy's quoted market share price results in the following quoted market price value including a premium for control:

	Low \$	Preferred \$	High \$
Quoted market price value	0.0010	0.0015	0.0020
Control premium	25%	30%	35%
Quoted market price valuation including a premium for control	0.0013	0.0020	0.0027

Source: BDO analysis

Therefore, our valuation of a Pilot Energy share based on the quoted market price method and including a premium for control is between \$0.0013 and \$0.0027, with a midpoint value of \$0.0020.

### 10.3 Assessment of Pilot Energy Value

The results of the valuations performed are summarised in the table below:

	Low \$	Preferred \$	High \$
Net assets value (Section 10.1)	0.0063	0.0105	0.0147
ASX market prices (Section 10.2)	0.0013	0.0020	0.0027

Source: BDO analysis

We note that our NAV value is higher than the value obtained using the QMP methodology. We attribute this difference in value derived under the two methods to the following:

- Our NAV methodology includes an independent market valuation of Pilot Energy’s exploration assets performed by RISC. The valuation methodologies applied by RISC have taken into account the current market, locality, technical and strategic factors which all have an impact on the development of the exploration assets and therefore value;
- The QMP of a Pilot Energy share is likely to be negatively impacted by the currently depressed state of commodity markets. This may not be fully reflected in the NAV of the Company; and
- The QMP of a Pilot Energy share is likely to reflect the Company’s difficulty in obtaining funding, and Shareholders’ expectations of future dilution should the Company be successful in raising the required funding to develop its projects. As outlined in section 5, the Company is required to perform minimum exploration work to maintain current rights of tenure to its exploration assets;
- We note that for the year ended 30 September 2015, the Company’s auditor issued an emphasis of matter paragraph in the audit report. The auditor outlined the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. The QMP of a Pilot Energy share is likely to be negatively impacted by the existence of material uncertainty in relation to the Company’s ability to continue as a going concern; and
- The QMP of a Pilot Energy share is likely to be negatively impacted by the uncertainty surrounding the Company’s corporate restructure. During the period, the Company experienced a complete change to the board and management which resulted in the disposal of the Company’s 30% working interest in the Alaskan North Slope. The disposal resulted in the Company incurring an exploration and expenditure of \$11,641,216 written off for the year ended 30 September 2015.

We consider the net asset value methodology to be the most appropriate methodology, given that the core value of the Company lies in the exploration assets that it holds. We have instructed an independent specialist to value Pilot Energy’s mineral assets, which we have included in our net asset value. The net asset value also best represents the value that is attributable to shareholders as a whole. We note that RISC’s determined value of Pilot Energy’s exploration asset on a portfolio basis is based on comparable transactions method where they exists and notional farm-in terms by a potential farmee into the assets. Should the potential farmee not be successful, the value of a Pilot Energy share would represent the quoted market price of a Pilot Energy share.

Based on the results above we consider the value of a Pilot Energy share to be between \$0.0063 and \$0.0147, with a preferred value of \$0.0105.



## 11. Valuation of Pilot Energy following completion of the Transaction

The value of Pilot Energy assets on a going concern basis following completion of the Transaction is reflected in our valuation below:

	Notes	Low value \$	Preferred value \$	High value \$
<b>Net Assets of Pilot Energy prior to the Transaction</b>		<b>12,779,550</b>	<b>21,359,350</b>	<b>29,939,050</b>
Funds received under Tranche Two	1	2,800,020	2,800,020	2,800,020
Transaction costs connected with Tranche Two	2	(178,621)	(178,621)	(178,621)
<b>Net Assets of Pilot Energy following the Transaction</b>		<b>15,400,949</b>	<b>23,980,749</b>	<b>32,560,449</b>
Discount for minority interest	3	26%	23%	20%
<b>Net Assets of Pilot Energy following the Transaction (minority interest basis)</b>		<b>11,396,702</b>	<b>18,465,177</b>	<b>26,048,359</b>
Shares on issue (number)	4	2,971,316,834	2,971,316,834	2,971,316,834
<b>Value per share (\$)</b>		<b>\$0.0038</b>	<b>\$0.0062</b>	<b>\$0.0088</b>

Source: BDO Analysis

The table above indicates the net asset value of a Pilot Energy share following completion of the Transaction is between \$0.0038 and \$0.0088, with a preferred value of \$0.0062. The following adjustments were made to the net assets of Pilot Energy following completion of the Transaction.

### Note 1: Cash and cash equivalents

We have adjusted cash and cash equivalents for the expected receipt of funds from the issue of shares to the Subscribers under Tranche Two. Following completion of Tranche Two, Pilot Energy will issue 933.34 million shares at \$0.0030 per share to raise \$2,800,020. Management has advised that the Company will incur \$178,621 in transaction costs which we have also adjusted.

### Note 3: Minority discount

The net asset value of a Pilot Energy share following the Transaction is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the company which allows them to have an individual influence in the operations and value of that company. Therefore, if the Transaction is approved Shareholders may become minority interest shareholders in Pilot Energy as the Subscribers in aggregate may be considered as holding a controlling interest, meaning that the individual holding of Shareholders may not be considered significant enough to have an individual influence in the operations and value of the Company.

Therefore, we have adjusted our valuation of a Pilot Energy share following the Transaction, to reflect a minority interest holding. A minority interest discount is the inverse of a premium for control. As discussed in section 10.2, we consider an appropriate control premium for Pilot Energy to be in the range of 25% to 35%, giving rise to a minority interest discount in the range of 20% to 26%.

**Note 4: Number of shares on issue**

We have adjusted the number of shares on issue for the 933.34 million shares to be under Tranche Two. Therefore the number of shares on issue following the Transaction has increased to 2,971,316,834 as set out below.

Shares on issue	Section	Number
Shares on issue prior to the Transaction	10.1	2,037,976,834
Shares proposed to be issued under Tranche Two		933,340,000
<b>Shares on issue following completion of the Transaction</b>		<b>2,971,316,834</b>

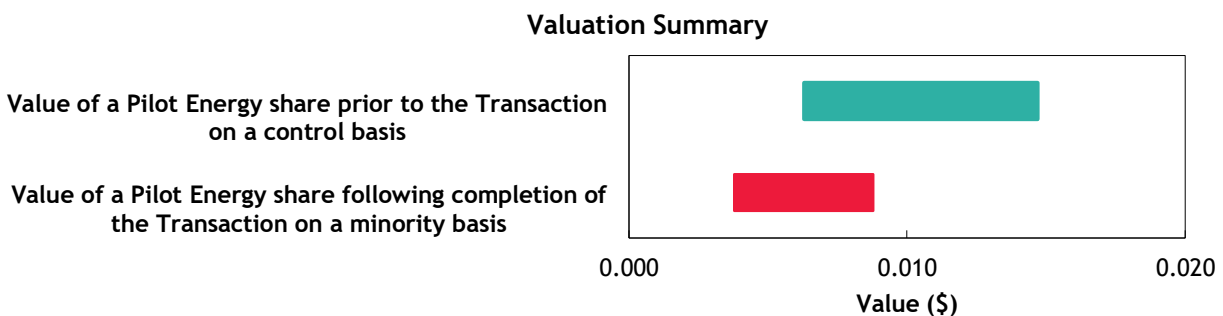
**12. Is the Transaction fair?**

The value of a Pilot Energy share prior to the Transaction on a control basis compares to the value of a Pilot Energy share following the Transaction on a minority basis, as detailed below.

	Ref	Low value \$	Preferred value \$	High value \$
Value of a Pilot Energy share prior to the Transaction on a control basis	10.3	0.0063	0.0105	0.0147
Value of a Pilot Energy share following completion of the Transaction on a minority basis	11	0.0038	0.0062	0.0088

We note from the table above that the value of a Pilot Energy share following completion of the Transaction on a minority basis at the low, preferred and high end is less than the value of a Pilot Energy share prior to the Transaction on a controlling basis at the preferred end. Therefore, we consider that the Transaction is not fair.

The above valuation ranges are graphically presented below:



Source: BDO Analysis

The above pricing indicates that, in the absence of any other relevant information, the Transaction is not fair for Shareholders

## 13. Is the Transaction reasonable?

### 13.1 Advantages of approving the Transaction

We have considered the following advantages when assessing whether the Transaction is reasonable.

#### 13.1.1. Minority interest values overlaps

In assessing the fairness of the Transaction in section 12, RG 111.31 stipulates that in a control transaction a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction allowing for a minority discount. It is relevant for Shareholders to appreciate that as Shareholders they hold a minority interest in Pilot Energy prior to the Transaction and they will retain a minority interest following the Transaction.

Our value of a Pilot Energy share prior to the Transaction on a minority basis has been calculated by applying our minority interest discount to our value of a Pilot Energy share prior to the Transaction, as shown below:

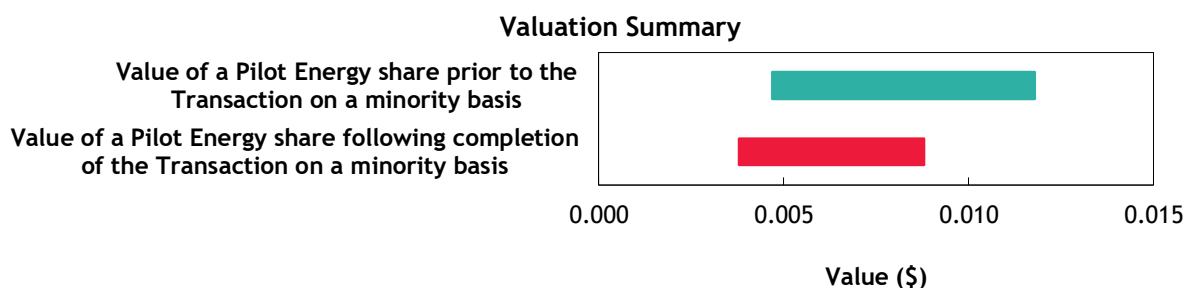
	Low \$	Preferred \$	High \$
Value of a Pilot Energy share prior to the Transaction on a control basis	0.0063	0.0105	0.0147
Discount for minority interest	26%	23%	20%
<b>Value of a Pilot Energy share prior to the Transaction on a minority basis</b>	<b>0.0047</b>	<b>0.0081</b>	<b>0.0118</b>

Source: BDO analysis

Therefore, the table below provides a comparison between the value of a Pilot Energy share prior to the Transaction and following the Transaction on a minority interest basis.

	Low value \$	Preferred value \$	High value \$
Value of Pilot Energy prior to the Transaction on a minority basis	0.0047	0.0081	0.0118
Value of Pilot Energy following completion of the Transaction on a minority basis	0.0038	0.0062	0.0088

The above valuation ranges are graphically presented below:



Source: BDO analysis

The table and the graph above indicate that the preferred and high values of a share in Pilot Energy following completion of the Transaction on a minority interest basis are within the range values of a share in Pilot Energy on a minority interest basis prior to the Transaction.

### **13.1.2. The Transaction provides funds to enable the Company to meet its existing project commitments and working capital**

The Transaction provides the Company with additional funds to enable the Company to meet its existing project commitments on the Company's exploration assets, consider further acquisitions in the oil and gas sector and provide ongoing working capital.

In order to maintain its current rights of tenure to its exploration permits, Pilot Energy is required to perform minimum exploration work to meet those requirements as specified by the State Government. These commitments include, but are not limited to, minimum spending requirements on geological and geophysical studies and a well to be drilled across all four exploration permits.

In addition, the Company is also committed to pay for US\$1,300,000 seismic data license cost for WA-507-P. On 22 December 2015, Pilot Energy agreed to pay seismic provider TGS-NOPEC US\$250,000 in return for receiving a discount and deferral of the due date for the balance of payments. The remaining balance of US\$912,500 is due by 31 December 2016.

If the Transaction receives shareholder approval, Pilot Energy has ensured that it will raise sufficient funds to meet the remaining balance for the seismic data license cost and further its studies at its exploration permits.

Further details of the Company's work commitments at its exploration permits can be found in Appendix Three.

### **13.1.3. Tranche Two issue price substantially higher than our assessed value of a Pilot Energy share based on the quoted market price methodology**

The issue price per share of \$0.0030 under Tranche Two, is substantially higher than our assessed value of a Pilot Energy share based on the quoted market price methodology where the Company's share price have demonstrated a high level of liquidity. We also note that large placements are usually undertaken at a discount to the quoted market price which has been the case for Pilot Energy prior to the issue of Tranche One. Further details can be found in section 13.5.

### **13.1.4. Strengthening of the Company's balance sheet and continuation as a going concern**

The Transaction will provide a necessary capital inflow. An increase in cash will improve the current ratios of the Company. Improving the financial position of the Company may improve its ability to attract additional investment, potentially increasing liquidity. We also note that the most recent Pilot Energy financial statements were issued with an emphasis of matter by the Company's auditor regarding the recoverability of existing assets which may cast significant doubt over the Company's ability to continue as a going concern.

If the Transaction receives shareholder approval, this will provide cash which will aid in the Company continuing as a going concern into the near future.

We are unaware of any alternative proposal that might offer the Shareholders of Pilot Energy a premium over the value ascribed to, resulting from the Transaction. Without additional cash funding the recoverability of existing assets and continuation as a going concern will not improve.

### **13.1.5. Guaranteed funding at a superior price to most recent capital raising**

On 9 July 2015, Pilot Energy announced that it had completed a pro rata renounceable rights issue for eligible shareholders to subscribe for two new fully paid shares for every one fully paid ordinary share held at a price of \$0.0010 per share.

On 26 April 2016, the Company announced that it has completed Tranche One whereby the Subscribers were issued 400 million shares at an issue price of \$0.0020 per share.

The issue price per share to be issued under Tranche Two is \$0.0030, which is at an issue price greater than the rights issue that was offered to existing shareholders in July 2015 and the issue price of \$0.0020 under Tranche One to the Subscribers.

### **13.1.6. Support from strategic investors**

Following completion of the Transaction, the Subscribers will collectively hold 44.87% of the issued capital of Pilot Energy. The presence of a major shareholder, such as the Subscribers, may also increase the Company's ability to raise additional funds that may be required in the future to fund the Company's longer term development strategy of its exploration assets.

### **13.1.7. No changes to current operating arrangements**

We are not aware of any operational changes that the Subscribers wish to introduce if the Transaction is approved. The Company understands that the Subscribers have no present intention to:

- i. make any significant changes to the business of the Company;
- ii. inject further capital into the Company;
- iii. make changes regarding the future employment of the present employees of the Company. However, in accordance with the terms of the SSA, a second representative of the Subscribers will be appointed to the position of the director of the Company (with Mr Tung Leung (Benson) Wong), a representative of the Subscribers, having been appointed to the position of Director on 28 April 2016, following the completion of Tranche One;
- iv. transfer any assets between Pilot Energy and the Subscribers or their associates;
- v. redeploy the fixed assets of Pilot Energy; and
- vi. significantly changing the financial or dividend distribution policies of the Company.

## **13.2 Disadvantages of approving the Transaction**

If the Transaction is approved, in our opinion, the potential disadvantages to Shareholders are set out below:

### **13.2.1. The Transaction is not fair**

As set out in section 12, the Transaction is not fair. RG 111 states that an offer is reasonable if it is fair, in this case it is not fair.

### 13.2.2. Dilution of existing Shareholders' interest

If the Transaction is approved, Shareholders' interest could potentially be diluted from approximately 80.05% of the issued capital of Pilot Energy to a minimum of 55.13%. This will dilute Shareholders' interests and their level of collective influence on the operations of the Company.

Furthermore, under the terms of the SSA, the Subscribers will nominate an additional director to the Board. Following completion of Tranche One, Mr Benson Wong was appointed as an Executive Director. Subject to shareholder approval and completion of the Transaction, it is proposed that Mr Wilson Xue be appointed as Non-executive Director. This means that the Subscribers' nominated directors will make up 50% of the Board following completion of the Transaction.

### 13.2.3. Potential lower liquidity of shares

If the Transaction is approved, trading in the Company's shares may be negatively affected by the presence of a major shareholder with up to a 44.87% ownership in the Company. The shares will have a materially lower free float on a proportional basis which may reduce liquidity.

### 13.2.4. Decrease the likelihood of a takeover offer

If the Transaction is approved, the Subscribers will in aggregate hold up to 44.87% of the issued capital in Pilot Energy. This may discourage any other potential bidder from making a takeover bid in the future as the Subscribers will be considered to hold a controlling interest in the Company. This may have an adverse effect on the share price of Pilot Energy and may reduce the opportunity for Shareholders to receive a takeover premium in the future.

## 13.3 Other considerations

As set out in section 10.2, we consider there to be a deep market for the Company's shares as a result of 81.34% of the Company's issued capital being traded over the six months prior to the announcement of the Transaction.

We therefore consider it appropriate to assess how the quoted market price of a Pilot Energy share prior to the Transaction on a controlling basis in section 10.2 compares to the 'notional' quoted market price of a Pilot Energy share following completion of the Transaction on a minority basis.

### Quoted market price of a Pilot Energy share prior to the Transaction on a controlling basis

Summarised below is our assessment of a Pilot Energy share based on the quoted market price method prior to the announcement of the Transaction on 31 March 2016.

	Ref	Low \$	Preferred \$	High \$
Quoted market price value (minority interest)	Section 10.2	0.0010	0.00150	0.0020
Control premium		25%	30%	35%
<b>Quoted market price valuation including a premium for control</b>		<b>0.0013</b>	<b>0.0020</b>	<b>0.0027</b>

Source: BDO analysis

Our assessment of the valuation of a Pilot Energy share based on the quoted market price method including a premium for control is between \$0.0013 and \$0.0027, with a midpoint value of \$0.0020. Further details can be found in section 10.2.

### Notional quoted market price of a Pilot Energy share following completion of the Transaction on a minority basis

To determine the ‘notional’ quoted market share price of a Pilot Energy share following completion of the Transaction on a minority basis, we have assessed the implied total market value of Pilot Energy’s shares after the Transaction over the number of shares outstanding after the Transaction.

In considering the implied market value of Pilot Energy’s shares following completion of the Transaction, we have determined the implied total market value of Pilot Energy’s shares prior to the Transaction and adjusted it for the funds received from the completion of Tranche One, funds to be received from Tranche Two and the exercise of the \$0.0030 Options.

Prior to the announcement of the Transaction on 31 March 2016, the implied market value of Pilot Energy’s shares on a minority basis is summarised in the table below.

	Ref	Low	Preferred	High
Quoted market price of a Pilot Energy share prior to the Transaction on a minority basis (\$)	Section 10.2	0.0010	0.0015	0.0020
Number of shares outstanding prior to 31-Mar-16		1,605,476,834	1,605,476,834	1,605,476,834
<b>Implied total market value of Pilot Energy shares prior to the Transaction (minority basis) (\$)</b>		<b>1,605,477</b>	<b>2,408,215</b>	<b>3,210,954</b>

Source: BDO analysis

Based on our assessed quoted market price (on a minority basis) in section 10.2 and the number of shares outstanding prior to the announcement of the Transaction on 31 March 2016, we have assessed the implied market value of Pilot Energy’s shares prior to the Transaction on a minority basis is between \$1,605,477 and \$3,210,954.

Set out in the table below is our adjustments made to the implied total market value of Pilot Energy shares following the announcement of the Transaction on 31 March 2016. Our assessed ‘notional’ quoted market share price of a Pilot Energy share following completion of the Transaction on a minority basis is also reflected below.

	Note	Low \$	Preferred \$	High \$
Implied total market value of Pilot Energy shares prior to the Transaction (minority basis)		1,605,477	2,408,215	3,210,954
Add: Funds received from Tranche One	1	800,000	800,000	800,000
Add: Funds received from Tranche Two	1	2,800,020	2,800,020	2,800,020
Less: Transaction costs	1	(229,001)	(229,001)	(229,001)
Add: Funds received from the exercise of the \$0.0030 Options	2	65,000	65,000	65,000
Less: Cancellation of options fee	2	(80,000)	(80,000)	(80,000)
<b>Implied total market value of Pilot Energy shares following completion of the Transaction (minority basis)</b>		<b>4,961,496</b>	<b>5,764,234</b>	<b>6,566,973</b>
Number of shares outstanding following completion of the Transaction	3	2,971,316,834	2,971,316,834	2,971,316,834
<b>Notional quoted market price of a Pilot Energy share following completion of the Transaction on a minority basis</b>		<b>0.0017</b>	<b>0.0019</b>	<b>0.0022</b>

Source: BDO analysis

Therefore, our assessment of the ‘notional’ quoted market price of a Pilot Energy share following completion of the Transaction on a minority basis is between \$0.0017 and \$0.0022, with a preferred value

of \$0.0019. The following adjustments were made to the implied total market value of Pilot Energy shares and the number of shares outstanding following the announcement of the Transaction on 31 March 2016.

**Note 1: Funds received from Tranche One and Tranche Two**

We have adjusted for the receipt of funds from the completion of Tranche One and the funds to be raised from Tranche Two. On 26 April 2016, the Company announced that it had completed Tranche One, resulting in the Company issuing 400 million shares at \$0.0020 per share to raise \$800,000. Under Tranche Two, Pilot Energy will issue 933.34 million shares at \$0.0030 per share to raise \$2,800,020. Management has advised that the Company will incur \$229,001 in total transaction costs.

**Note 2: Funds received from the exercise of the \$0.0030 Options**

We note that the Company currently has 125 million unlisted options which are exercisable at \$0.0020. We note that under resolutions 3 to 6 of the notice of meeting, the Company is seeking shareholder approval to cancel 80 million of these options. Approval of the resolutions will result in Pilot Energy having 45 million of these options remaining. Of the remaining 45 million options, 32.5 million vest upon the achievement of the five-day VWAP being equal to or exceeding \$0.0030 on or before 30 June 2019. The remaining 12.5 million vest upon the five-day VWAP being equal to or exceeding \$0.0060 on or before 30 June 2019. We consider the \$0.0030 Options will vest following completion of the Transaction and therefore have included the exercise of these options in the above analysis.

**Note 3: Number of shares outstanding following completion of the Transaction**

We have adjusted the number of shares on issue for the 400 million shares issued under Tranche One, the 933.4 million shares to be issued under Tranche Two and shares to be issued on the exercise of the 32.5 million \$0.0030 Options as set out in the table below:

Shares on issue	Number
Shares on issue prior to 31-Mar-2016	1,605,476,834
Shares issued under Tranche One	400,000,000
Shares issued under Tranche Two	933,340,000
Shares issued upon exercise of the \$0.0030 Options	32,500,000
<b>Shares on issue following the Transaction</b>	<b>2,971,316,834</b>

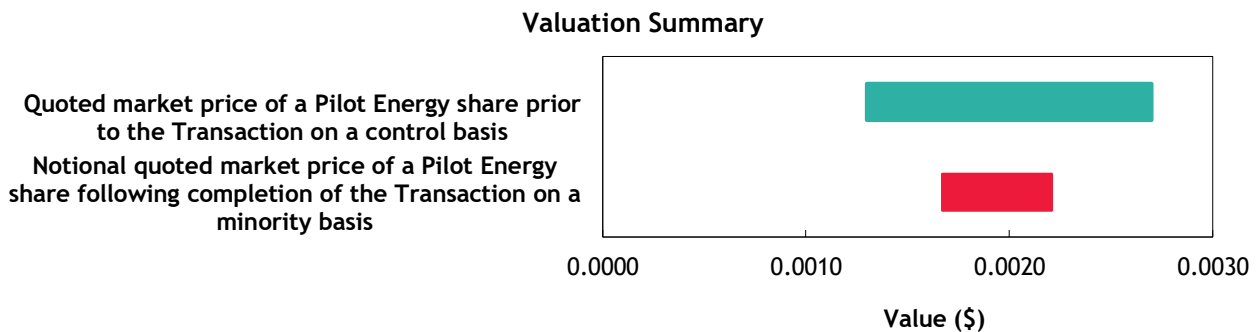
Source: BDO analysis

The table below provides a comparison between the quoted market price of a Pilot Energy share prior to the Transaction on a controlling basis and the 'notional' quoted market price of a Pilot Energy share following completion of the Transaction on a minority basis.

	Low value \$	Preferred value \$	High value \$
Quoted market price of a Pilot Energy share prior to the Transaction on a control basis	0.0013	0.0020	0.0027
Notional quoted market price of a Pilot Energy share following completion of the Transaction on a minority basis	0.0017	0.0019	0.0022



The above valuation ranges are graphically presented below:



Source: BDO analysis

The table and the graph above indicate that the low, preferred and high values of our assessed ‘notional’ quoted market price of a Pilot Energy share following completion of the Transaction on a minority interest basis are within the range values of a quoted market share price of Pilot Energy on a control basis prior to the Transaction.

### 13.4 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Pilot Energy a premium over the value ascribed to, resulting from the Transaction.

### 13.5 Consequences of not approving the Transaction

#### Consequences

If the Transaction is not approved, the Directors of Pilot Energy will need to raise funds through alternative methods in order to meet its existing project commitments and to maintain its current rights of tenure to its exploration permits. This may include capital raisings, debt or asset sales. As noted in section 13.4 there have been no superior proposals that the Directors are aware of.

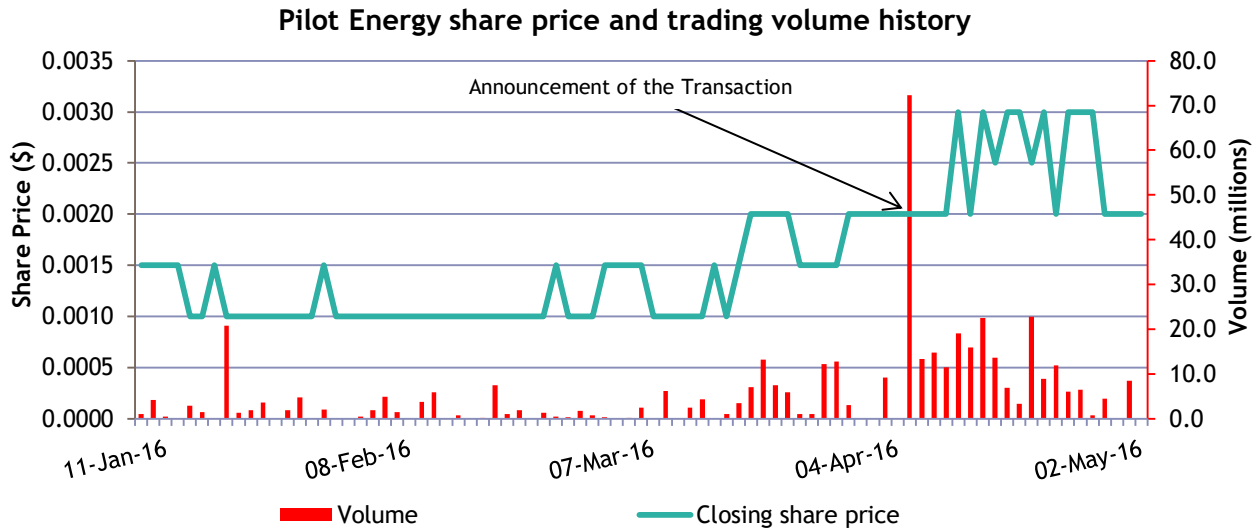
We have analysed the Company’s ability to raise capital from the market in the past prior to the completion of Tranche One to the Subscribers. On 17 July 2014, the Company raised \$3.0 million (gross) through the placement of 85 million new shares at \$0.035 per share, representing a 5% discount to the last closing price. On 9 June 2015, Pilot Energy announced a pro rata renounceable rights issue for eligible shareholders to subscribe for two new fully paid ordinary shares for every one fully paid share held at a price of \$0.001 per share, this represented a 23% discount to the last close price.

Based on the current state of equity capital markets, the Company may find it difficult to raise funds from the market. If the Company was successful in raising funds from the market, it would likely be at a discount to the market price and would be dilutive to Shareholders.

Given the material uncertainty regarding the Company’s ability to continue as a going concern as highlighted in the audit report for the year ended 30 September 2015, we consider it unlikely that the Company will be able to secure debt funding. Typically senior debt is not available to exploration companies due to their lack of operating revenues. The above factors suggest that Pilot Energy is likely to find it difficult to secure senior debt funding. This means the only potential form of debt funding that may be available to Pilot Energy is through the issue of a convertible debt facility, which if converted will also be dilutive to Shareholders.

### Potential decline in share price

We have analysed movements in Pilot Energy’s share price since the Transaction was announced. A graph of Pilot Energy’s share price since the announcement is set out below.



Source: Bloomberg

The announcement of the Transaction was made to the market on 31 March 2016. On that day 72,364,078 shares were traded and Pilot Energy’s share price closed at \$0.0020, the same closing price on the last full trading day prior to announcement of the Transaction. Since the announcement of the Transaction, Pilot Energy’s share price has continued to trade between \$0.0020 and \$0.0030 with 190,297,617 shares being traded. On 2 May 2016, the Company’s share price closed at \$0.0020.

Given the above analysis it is possible that if the Transaction is not approved then Pilot Energy’s share price may decline back down to pre-announcement levels.

### 13.6 Practical Level of Control

Following completion of the Transaction, GS Energy alone will hold 24.93% of the issued capital in the Company. As we consider the Subscribers to be associates, we note that following completion of the Transaction, the Subscribers will collectively hold 44.87% of the issued capital in the Company. In addition to this, Pilot Energy will have two Board members nominated by the Subscribers, which constitutes 50% of the Board.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Transaction is approved then the Subscribers will be able to block special resolutions.

Following completion of Tranche One, Pilot Energy’s Board now comprises five directors. Following completion of the Transaction, Mr Conrad Todd and Mr Rory McGoldrick will step down as directors of the Company. The Subscribers will nominate two directors, Mr Benson Wong and Mr Wilson Xue as Executive and Non-Executive Directors, respectively. We note that Mr Benson Wong was appointed as Executive



Director following the completion of Tranche One. This means that the Subscribers' nominated directors will make up 50% of the Board.

The Subscribers' control of Pilot Energy following completion of the Transaction will be significant when compared to all other shareholders. Therefore, in our opinion, while the Subscribers will be able to significantly influence the activities of Pilot Energy, it will not be able to exercise a similar level of control as if it held 100% of Pilot Energy. As such, the Subscribers should not be expected to pay a similar premium for control as if it were acquiring 100% of Pilot Energy.

## **14. Conclusion**

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is not fair but is reasonable to the Shareholders of Pilot Energy.

In our opinion, the Transaction is not fair because the value of a Pilot Energy share after the Transaction on a minority basis at the low, preferred and high end of our value range is less than the value of a Pilot Energy share prior to the Transaction on a controlling basis at the preferred end. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages. In particular, the Transaction will enable the Company to meet its existing project commitments on its exploration assets.

## 15. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Signed share subscription agreement between Pilot Energy and the Subscribers dated 30 March 2016;
- Audited financial statements of Pilot Energy for the years ended 30 September 2013, 30 September 2014 and 30 September 2015;
- Management accounts of Pilot Energy for the five months ended 29 February 2016;
- Independent Valuation Report of Pilot Energy's exploration assets dated May 2016 performed by RISC Operations Pty Ltd;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Pilot Energy .

## 16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$24,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Pilot Energy in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd.'s reliance on information provided by the Pilot , including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Pilot Energy and the Subscribers and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd.'s opinion it is independent of Pilot Energy and the Subscribers and their respective associates.

The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 - Professional Independence. The services provided have no material impact on the financial report of Pilot Energy.

A draft of this report was provided to Pilot Energy and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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## 17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 250 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors

## 18. Disclaimers and consents

This report has been prepared at the request of Pilot Energy for inclusion in the Explanatory Statement which will be sent to all Pilot Energy Shareholders. Pilot Energy engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposal for Pilot Energy to issue 933.34 million shares to the Subscribers to raise approximately \$2.8 million.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Statement other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Pilot Energy. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transaction, tailored to their own particular circumstances.

Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Pilot Energy, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by Pilot Energy.

The valuer engaged for the mineral asset valuation, RISC Operations Pty Ltd, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD**



**Sherif Andrawes**

Director



**Adam Myers**

Director

## Appendix 1 - Glossary of Terms

Reference	Definition
\$0.0030 Options	Options exercisable at \$0.0020 subject to the achievement of the five-day VWAP being equal to or exceeding \$0.0030 on or before 30 June 2019
\$0.0060 Options	Options exercisable at \$0.0020 subject to the achievement of the five-day VWAP being equal to or exceeding \$0.0060 on or before 30 June 2019
\$A	Australian dollars
ACES	Alaska Clear and Equitable Share
The Act	The Corporations Act 2001 Cth
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
AUD	Australian dollars
Austar	Austar Nominees Pty Ltd in its capacity as trustee for the Wang Family Trust
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
Billion Power	Billion Power Capital Investment Limited
Caracal	Caracal Exploration Pty Ltd
The Company	Pilot Energy Limited
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Empire	Empire Oil & Gas NL
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service

Reference	Definition
FSG	Financial Services Guide
GS Energy	GS Energy Pty Ltd
GST	Goods and Services Tax
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
NAV	Net Asset Value
NOPTA	National Offshore Petroleum Titles Administrator
OPEC	Organisation of Petroleum Exporting Countries
PAYG	Pay As You Go
Pilot Energy	Pilot Energy Limited
QMP	Quoted market price
Rampart Alaska	Rampart Alaska LLC
Rampart	Rampart Energy Limited
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO
RG 74	ASIC Regulatory Guide 74 Acquisitions approved by Members (December 2011)
RG 111	ASIC Regulatory Guide 111 Content of expert reports (March 2011)
RG 112	ASIC Regulatory Guide 112 Independence of experts (March 2011)
RISC	RISC Operations Pty Ltd
Royale Energy, Inc.	Royale Energy
Shareholders	Shareholders of Pilot Energy not associated with the Subscribers
Subscribers	Billion Power, Sunpex, GS Energy and Austar
Sunpex	Sunpex International Limited



Reference	Definition
SSA	Share subscription agreement entered into between Pilot Energy and the Subscribers dated 30 March 2016
Tranche One	The issue of 400 million ordinary shares to the Subscribers in aggregate at \$0.002 per share
Tranche Two	The issue of 933.34 million ordinary shares to the Subscribers in aggregate at \$0.003 per share
The Transaction	The issue of 933.34 million shares in aggregate to the Subscribers under Tranche Two
US\$	United States dollars
Valmin Code	The Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VWAP	Volume Weighted Average Price

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## Appendix 2 - Valuation Methodologies

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Methodologies commonly used for valuing assets and businesses are as follows:

### 1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

### 2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

### 3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

#### **4 Discounted future cash flows ('DCF')**

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start-up phase, or experience irregular cash flows.

#### **5 Market Based Assessment**

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

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# Appendix 3 - Independent Valuation Report

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# Independent Technical Specialist Report

## Pilot Energy Ltd – Australian Exploration Assets

May 2016

15.0191



## Document control

### INDEPENDENT TECHNICAL SPECIALIST'S REPORT ON PILOT ENERGY'S AUSTRALIAN EXPLORATION ASSETS

<b>Client Name</b>	<b>Pilot Energy/ BDO</b>	<b>Client Representative</b>		<b>Sheriff Andrawes</b>	
<b>RISC Coordinator</b>	David Cliff	<b>RISC Job #</b>	15.0191	<b>Client Order#</b>	

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<b>Revision</b>	<b>Date</b>	<b>Description</b>	<b>Checked by</b>	<b>Approved by</b>

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Dear Sirs

## **INDEPENDENT TECHNICAL SPECIALIST'S REPORT ON PILOT ENERGY'S AUSTRALIAN EXPLORATION ASSETS**

### **1. Introduction**

Pilot Energy Ltd ("Pilot") has announced a cornerstone investment with an investor group acquiring a significant portion of the company's shares. Pilot has appointed BDO Corporate Finance (WA) Pty Ltd ("BDO Corporate Finance") as the Independent Expert to provide an opinion on the value of the company and its assets to the investor group.

To assist BDO Corporate Finance in preparing its valuation of the transaction, Pilot engaged RISC Operations Pty Ltd (RISC) to act as an independent specialist, as defined in the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, as amended (the VALMIN Code, 2005 Edition), and to prepare an Independent Technical Specialist Report (ITSR).

RISC's role in this engagement is to provide BDO Corporate Finance with an independent opinion on the market valuation of Pilot's interests in their Australian exploration assets located offshore in the Northern Carnarvon Basin and onshore in both the South and North Perth basins.

Pilot has made available to RISC a data set of technical information including geological and geophysical data and reports. RISC has also had meetings and discussions with Pilot's technical and management personnel. In carrying out this review, RISC has relied on the information received from Pilot and information in the public domain.

To assess reserves and resources, RISC has used the Petroleum Resources Management System published by the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/APEE) in March 2007 (SPE PRMS).

This document comprises the ITSR. It documents our review of the hydrocarbon potential of the Australian exploration assets. This report also provides an opinion on the fair market value of Pilot's interest.

## 2. Summary

### 2.1. Overview

The location of Pilot's Australian permits is shown in Figure 2-1. The two offshore permits WA-507-P and WA-503-P are located in the Northern Carnarvon Basin and the onshore permits are located in the Perth Basin with the two, adjacent permits EP-416 and EP-480 in the southern Perth Basin and EP-437 in the northern Perth Basin.

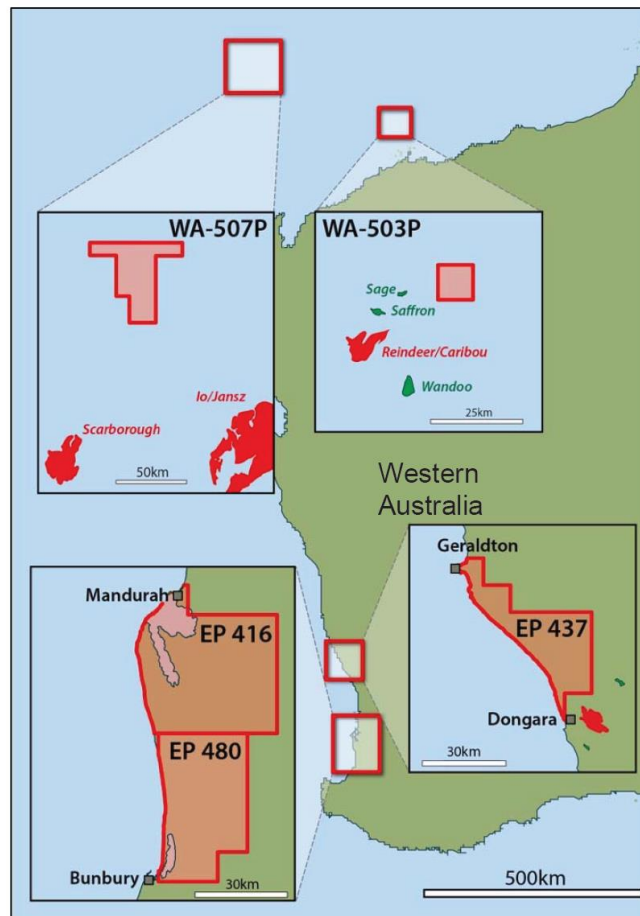


Figure 2-1: Location Map – Pilot's Australian permits

The offshore permits are located in the highly prospective and proven Northern Carnarvon Basin with the deep water block; WA-507-P located close to major gas discoveries at Scarborough, Thebe and Io/Jansz. The shallow water block; WA-503-P is on trend with the Legendre oil field to the northeast and the Caribou gas field to the southwest. The permits are under explored with WA-507-P having one well, Dalia South-1 drilled by Woodside in 2010 in and WA-503-P having two wells, Orion-1 (1990) by Woodside and Janus-1 (1997) by Apache.

The onshore permits are also sparsely explored with three wells in the southern Perth Basin permits, Pinjara-1(1965) and Preston-1 (1966) drilled by Wapet and GSWA Harvey-1 (2012) drilled by the Geological Survey of WA. The northern Perth Basin permit has had more drilling with over 20 wells but the vast majority of the exploration drilling was for very shallow targets of less than 1,000m and drilled in the 1960's and 1980's. The Dunnart-2 well is the most recent drilling in 2014 but again the TD of the well was less than 1,000m at 657m.

## 2.2. Resource Summary

RISC has carried out a review of the independent prospective resource estimates for the offshore permits by Gaffney Cline and Associates (GCA) and the onshore permits by Pilot Energy and we consider them to be reasonable. The Best estimate, oil prospective resources net to Pilot of 1,302 MMbbl (Table 2-1) and the Best estimate gas prospective resources net to Pilot of 8,199 Bcf (Table 2-2). The majority of the net prospective oil resources are in WA-507-P (1,265 MMbbls) which are estimated as an alternative and mutually exclusive case to the gas case in Table 2-2 below. In the event that hydrocarbons are found in WA-507-P (GPOS 16-18%), RISC believes that it is highly likely that they would be gas and a small chance that they would be oil.

**Table 2-1: Oil Portfolio Prospective Resources as at 31 March 2016**

Permit	Gross (100%) MMbbl			Net Pilot (80%) MMbbl		
	Low	Best	High	Low	Best	High
WA-507-P	604	1,581	3,600	483	1,265	2,880
WA-503-P	16	46	106	13	37	85
EP437	Undetermined by Pilot					
Total	620	1,627	3,706	496	1,302	2,965

1. Probabilistic methods have been used.
2. For WA-507-P the quoted prospective resources are the arithmetic sum of the three prospects identified by Pilot and independently assessed by GCA as at 31 January 2015. The prospects are prospective for oil and gas, or a combination of oil and gas.
3. For WA-503-P the quoted prospective resources are the arithmetic sum of the three prospects identified by Pilot and are the estimates of a review carried out by GCA as at 30 November 2015.
4. The aggregate Low estimate may be a very conservative estimate and the aggregate High estimate may be a very optimistic estimate due to the portfolio effects of arithmetic summation.
5. The prospective resources are unrisks. Prospective resources carry with them discovery and commercialisation risks.
6. The volumes are rounded to the nearest million barrels

Table 2-2: Gas Portfolio Prospective Resources as at 31 March 2016

Permit	Gross (100%) Bcf			Net Pilot Bcf		
	Low	Best	High	Low	Best	High
WA-507-P	4,030	10,047	21,099	3,224	8,037	16,879
EP416/EP480	90	270	600	54	162	360
Total	4,120	10,317	21,699	3,278	8,199	17,239

1. Probabilistic methods have been used.

2. For WA-507-P the quoted prospective resources are the arithmetic sum of the three prospects identified by Pilot and individually assessed by GCA as at 31<sup>st</sup> January 2015. The prospects are prospective for oil and gas. The gas case alternative is the most likely case.

3. For EP-416/480 the quoted prospective resources are the arithmetic sum of the two reservoirs within the Leschenault lead identified by Pilot and are the current internal estimates of Pilot.

4. The aggregate Low estimate may be a very conservative estimate and the aggregate High estimate may be a very optimistic estimate due to the portfolio effects of arithmetic summation.

5. The prospective resources are unrisks. Prospective resources carry with them discovery and commercialisation risks.

6. The volumes are rounded to the nearest Bcf

### 2.3. Valuation

The Pilot permits are all early stage exploration properties. RISC has therefore used comparable transactions, where they exist, and notional farm-in terms by a farmee into the assets to estimate a fair market value under the requirements of the VALMIN code.

The values of the permits have been determined at low, mid and high values. As the low and high values of the exploration assets portfolio are derived by the arithmetic addition of the individual asset low and high values, respectively, they represent the possible extremes of the exploration value envelop. While farminees into the individual permits could value the assets at either end of the value range assessed, it is unlikely that potential buyers of the exploration asset portfolio would value all of the assets at either all of the low or all of the high estimated extremes. Their own assessments of individual permits will span the low, mid or high outcomes based on factors including: their strategic objectives and region or geological basin focus; assessment of an asset's prospectivity and associated geological risks; the fiscal and regulatory framework applicable to the asset; accessibility of commercialisation routes, including markets and infrastructure, for each asset; equity interests, operator capability and joint venture partners in each asset. RISC has determined the low and high values of the portfolio of exploration assets at an estimated one standard deviation from the total mid value of the portfolio.

Table 2-3 Valuation Summary

Exploration Assets	Equity Interest %	Valuation (US\$MM)		
		Low	Mid	High
WA-507-P	80%	3.0	14.5	29.0
WA-503-P	80%	0.6	1.2	13.2
EP416 & EP480	60%	0.3	0.3	0.3
EP437	13.058%	0.0	0.1	0.2
Total Pilot Permit Value		4.0	16.2	42.8
Pilot Early Stage Exploration Portfolio Valuation Range		9.7	16.2	22.7

## 3. Basis of assessment

### 3.1. Terms of Reference

BDO Corporate Finance has requested that RISC to carry out the following scope of work:

- To review the exploration licenses and their hydrocarbon potential and form a view on the fair market value of the Assets by:
  - Reviewing the general prospectivity and identified leads and prospects and their prospective resources estimates and the range of uncertainty attributable to the estimates and their risking.
  - Reviewing the status of the committed work programs, variations sought to the work programs, outstanding liabilities and farmout intentions.
  - Reviewing exploration program costs for seismic and wells.
  - Stating the Assets' fiscal terms.
- Estimate the range of fair market value of the Company's interest in the Assets taking into account commitments, recent relevant transaction data; market factors and project risks.

The data and information used in the preparation of this report were provided by Pilot and supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of a review and audit of existing interpretations and assessments as supplied making adjustments that in our judgment were necessary.

RISC has reviewed the prospective resources in accordance with the Society of Petroleum Engineers internationally recognised Petroleum Resources Management System (SPE-PRMS).

Unless otherwise stated, all costs and values are in US\$ real terms with a reference date of 1 April 2016.

### 3.2. Exploration permit valuation

The valuation is based on the concept of "fair market value" (Value) as defined by the VALMIN Code.

The VALMIN Code defines Value as the amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the Mineral or Petroleum Asset or Security should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion.

A range of oil and gas industry accepted practices in relation to petroleum properties has been considered to determine value, which are described below.

#### Comparable transaction metrics

The Value of exploration properties can be estimated using recent comparable transactions. Such transactions may provide relevant metrics such as Value per unit of reserves, contingent or prospective resources, price paid per unit area of the permit or % interest. The VALMIN Code advises Value must also take into account risk and premium or discount relating to market, strategic or other considerations.



### **Farm-in promotion factors**

An estimate of Value can be based on an estimation of the share of future costs likely to be borne by a reasonable farminee under prevailing market conditions. A premium or promotion factor may be paid by the farminee. The promotion factor is defined as the ratio of the proportion of the activity being paid for and the amount of equity being earned.

The nominal permit value is defined as the amount spent by the farminee divided by the interest earned. The premium value for the permit is the difference between the nominal value and the equity share of the cost of the activity divided by the equity interest being earned.

The premium or promotion factor will be dependent upon the perceived prospectivity of the property, competition and general market conditions. The premium value is equivalent to the farminee paying the farmminor a cash amount in return for the acquisition of the interest in the permit and is the fair market value.

Farm-in transactions may have several stages. For example, a farminee may acquire an initial interest by committing to a future cost in the first stage of the transaction, but has an option to acquire an additional interest or interests in return to committing to funding a further work program or programs.

Farm-in agreements can also include re-imbursement of past costs and bonus payments once certain milestones are achieved, for example declaration of commerciality, or achieving threshold reserves volumes. Depending on their conditionality, such future payments may contribute to Value. However, they may need to be adjusted for the time value of money and probability of occurring.

### **Work programme**

The costs of a future work programme may also be used to estimate Value. The work programme valuation relies on the assumption that unless there is evidence to the contrary the permit is worth what a company will spend on it. This method is relevant for permits in the early stages of exploration and for expenditure which is firmly committed as part of a venture budget or as agreed with the government as a condition of holding the permit. There may need to be an adjustment for risk and the time value of money.

### **Expected Monetary Value (EMV)**

EMV is the risked NPV of a prospect. EMV is calculated as the success case NPV times the probability of success less the NPV of failure multiplied by the probability of failure. The NPV may be estimated using DCF methods. The EMV method provides a more representative estimate of Value in areas with a statistically significant number of mature prospects within proven commercial hydrocarbon provinces where the chance of success and volumes can be assessed with a reasonable degree of predictability.

The EMV valuation can also be used as a relative measure for ranking exploration prospects within a portfolio to make drilling decisions, assessing commercial potential and to demonstrate the commercial attractiveness of a permit, which may influence a buyer or seller.

In this report, the properties are considered too immature to be valued on a DCF basis and this valuation method is not considered.

### 3.3. Resource Classification

RISC has used the internationally recognised Petroleum Resources Management System (PRMS)<sup>1</sup> to define resource classification and volumes. The classification of resources is shown in Figure 3-1.

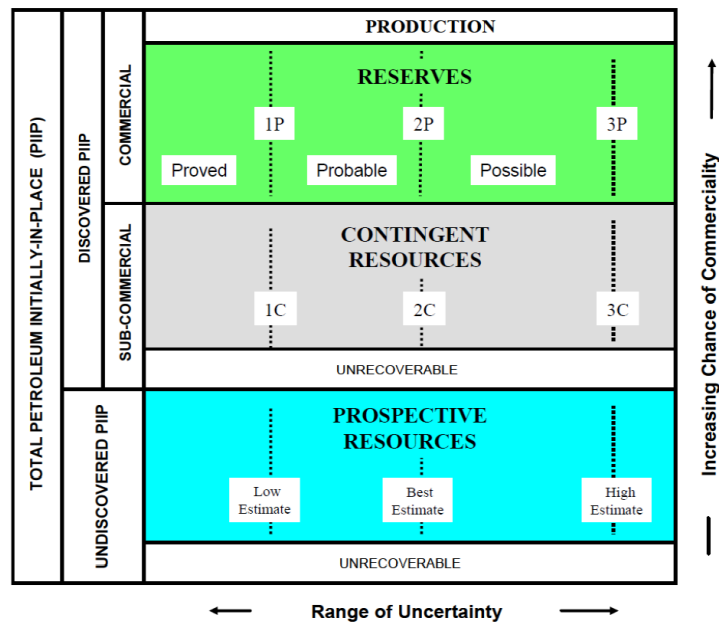


Figure 3-1: Resources classification framework

1. Each project is classified according to its maturity or status (broadly corresponding to its chance of commerciality) using three main classes, with the option to subdivide further using subclasses. The three classes are Reserves, Contingent Resources, and Prospective Resources.
2. Pilot only have Prospective Resources for their entire portfolio according to this classification.
3. For projects that satisfy the requirements for Prospective Resources the terms low estimate, best estimate, and high estimate are used.
4. Under the PRMS guidelines, the range of uncertainty in potentially recoverable volumes may be represented by either deterministic scenarios or by a probability distribution derived from the probabilistic simulation of input variables. RISC has reviewed resource volumes that were calculated probabilistically.
5. The PRMS guidelines indicate that when the range of uncertainty is represented by a probability distribution, a low, best, and high estimate shall be provided such that:
  - There should be at least a 90% probability (P90) that the quantities actually recovered equal or exceed the low estimate
  - There should be at least a 50% probability (P50) that the quantities actually recovered equal or exceed the best estimate
  - There should be at least a 10% probability (P10) that the quantities actually recovered equal or exceed the high estimate.

<sup>1</sup> SPE/WPC/AAPG/SPEE 2007 Petroleum Resources Management System

6. The probabilistically derived resource volumes for multiple reservoirs or multiple prospects can be combined probabilistically or, as is the case in this report can be summed arithmetically. In summing probabilistically derived resources the aggregate Low estimate may be a very conservative estimate and the aggregate High estimate may be a very optimistic estimate due to the portfolio effects of arithmetic summation.
7. Prospective Resources can be subdivided into Prospect, Lead or Play. The definitions from the PRMS guidelines are given in Table 3-1.

**Table 3-1: Prospective Resources Definition**

<b>Prospective Resources</b>	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

### 3.4. Chance of Discovery

Prospective Resources have both an associated chance of discovery and an additional chance of commercial development. By implication, not all discovered volumes are necessarily commercial. For the present study when evaluating the prospective resources RISC has restricted its statement to a view of the chance of discovery – equivalent to the geological probability of success.

RISC uses the geological probability of success (GPOS) to reflect the chance of encountering a significant volume of recoverable hydrocarbons. In this context, ‘significant’ implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery (PRMS).

Note that there is an additional chance to reach a specific volume, such as a commercial volume.

Risking methodology specific to the leads is discussed further in the report.

## 4. WA-507-P (80% WI and Operator)

### 4.1. Overview

The WA-507-P permit is located on the Exmouth Plateau, Northern Carnarvon Basin, offshore, Australia and has an area of 1,662 km<sup>2</sup> (Figure 4-1). The permit is some 300 km offshore Western Australia in water depths of 1,000m to 1,500m. Past exploration in the area has been successful for large, multi-Tcf gas discoveries with Scarborough (8-10 Tcf 2C contingent resource, source SubsealQ) and Thebe (2-3 Tcf 2C contingent resource, source Australian Government, 2010 Offshore Petroleum Exploration Acreage Release) to the southwest and Io/Jansz (10 Tcf 2P reserves, source Australian Government, Australian Gas Resource Assessment 2012) and Chandon (3.5 Tcf 2C contingent resources, source Australian Government, Australian Gas Resource Assessment 2012).

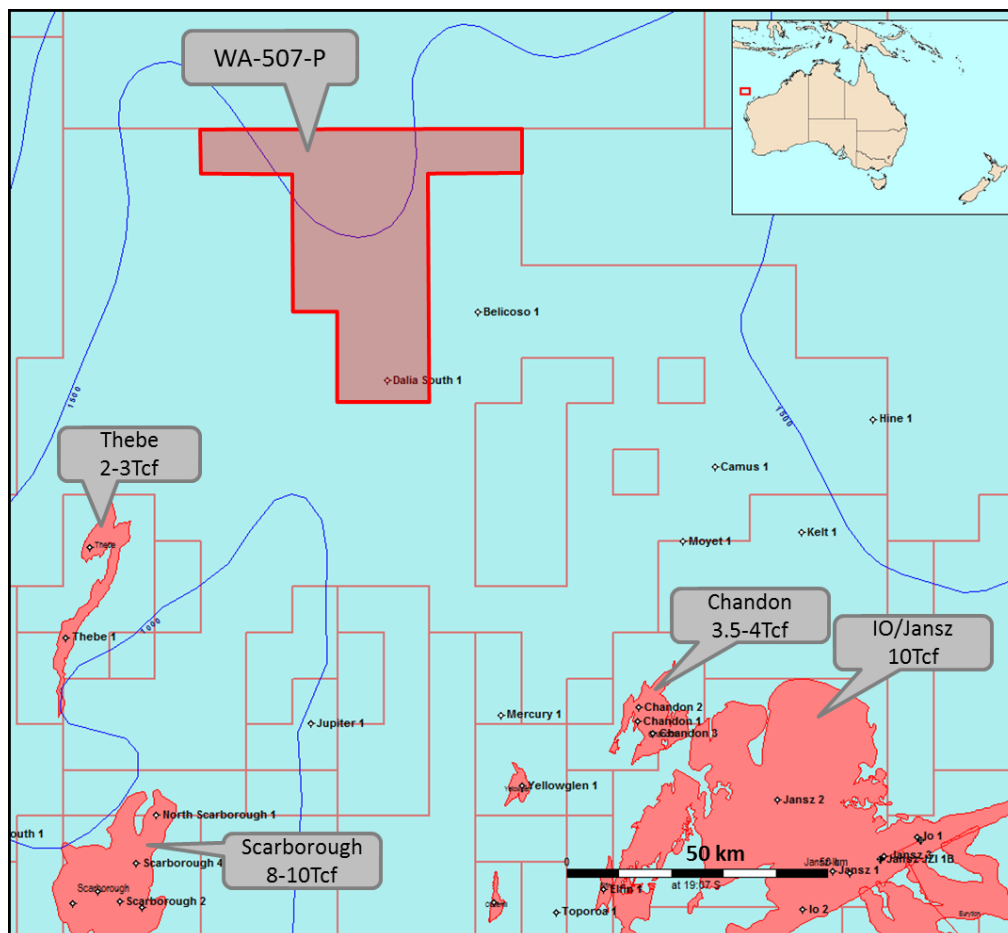


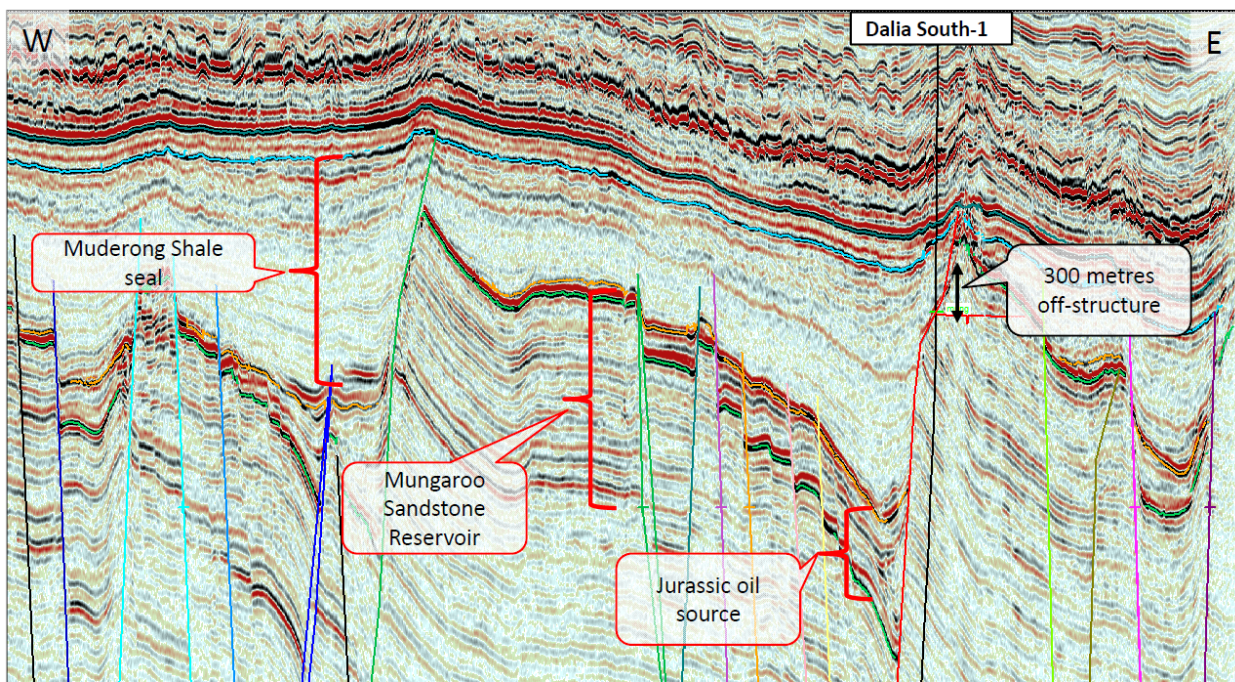
Figure 4-1: Location Map – WA-507-P

The permit was awarded on the 17 November 2014 and through an assignment agreement with a third party, Pilot acquired an 80% interest. Pilot is partnered in the permit by Black Swan Resources Pty Ltd, which owns the remaining 20% interest in the permit and is carried for the primary term by Pilot.

The only well drilled in the permit to date has been Dalia South-1 by Woodside in 2010 to a total depth (TD) of 4,685m. The well targeted a Mungaroo Fm gas play but the well was dry and was later mapped by Pilot to be drilled some 300m down dip from the crest of the structure.

The purchase of the existing 3D seismic data has been acquired under a special evaluation license from TGS. Payment of US\$1.3M was to be made for the data within the first 12 months after the permit's award and then an additional US\$2.5M will be due upon successful farmout or on entering year 4 of the permit term.

The existing, high quality 3D seismic data set (Figure 4-2) has allowed Pilot to mature three large structural prospects ranging in area from 60 km<sup>2</sup> to 280 km<sup>2</sup> (Figure 4-3). These prospects have the potential to contain significant quantities of gas in sandstones of the Mungaroo Fm (Figure 4-4). An emerging Triassic/Jurassic oil play may also exist in the permit and this new exploration opportunity has also been identified by Shell, Statoil and Eni, who are keenly pursuing the oil play in the surrounding permits but have not proven its existence to date. Results of their work will influence the value of Pilot's acreage before the well is committed in Year 6.



Seismic images shown with permission of TGS

**Figure 4-2: 3D Seismic Line through Dalia South-1**

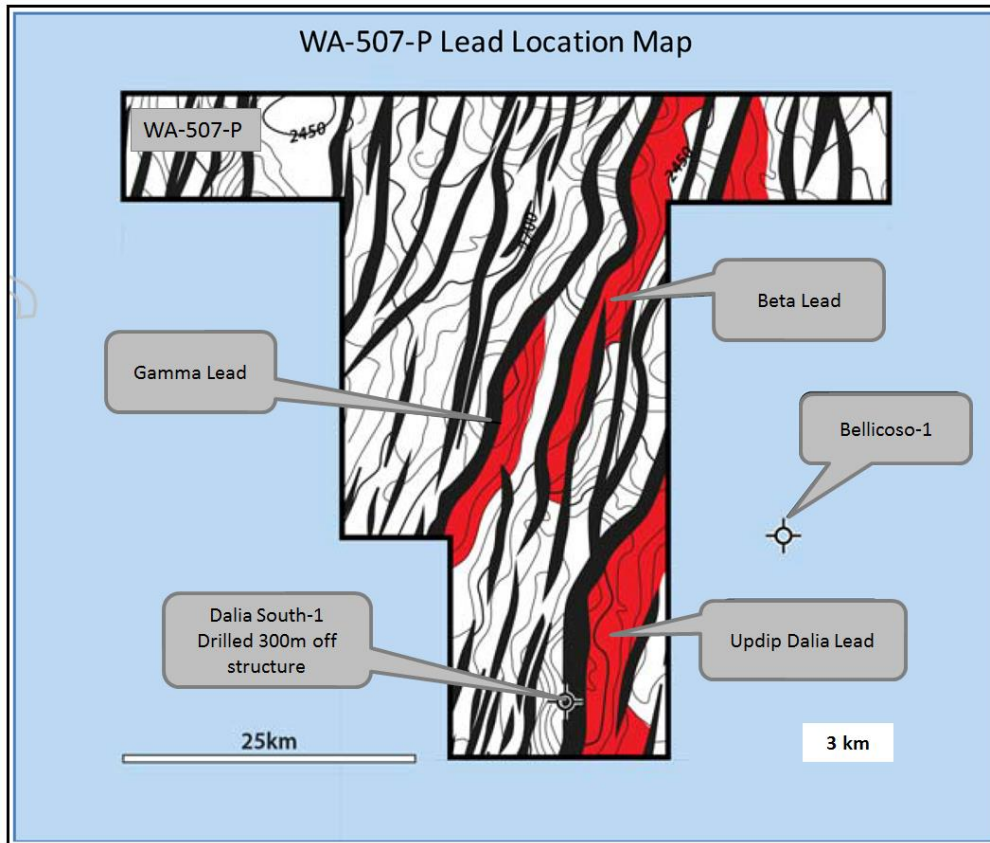


Figure 4-3: WA-507-P Leads Map

GCA has calculated the following prospective gas resources for the three prospects in the permit with the resources calculated only within the block boundary:

Table 4-1: WA-507-P Prospective Gas Resources by GCA as at 31<sup>st</sup> January 2015

Prospects	Gross (100%) on block Bcf			Net Pilot (80%) on block Bcf			GPOS (%)
	Low	Best	High	Low	Best	High	
Dalia Updip	1,644	4,734	9,639	1,315	3,787	7,711	18
Beta	1,010	2,436	5,674	808	1,949	4,539	16
Gamma	1,376	2,877	5,786	1,101	2,301	4,629	16
Total	4,030	10,047	21,099	3,224	8,037	16,879	

RISC believes that gas or gas and condensate are the most likely hydrocarbon phases to be discovered in the block but the potential for an oil accumulation or a combination of oil and gas cannot be ruled out. The surrounding fields are all gas fields and a gas chimney is seen on seismic on the northern extension of the Dalia prospect. Furthermore, RISC is of the opinion that CGA is optimistic in its assessment that in the event of a discovery of hydrocarbons, the oil case has a 30% chance of occurring vs the 70% chance that it will be

the gas case. RISC considers the chance of the oil case being 10% as the oil play is still unproven. The volumes quoted for oil and gas are mutually exclusive, alternative outcomes for these prospects.

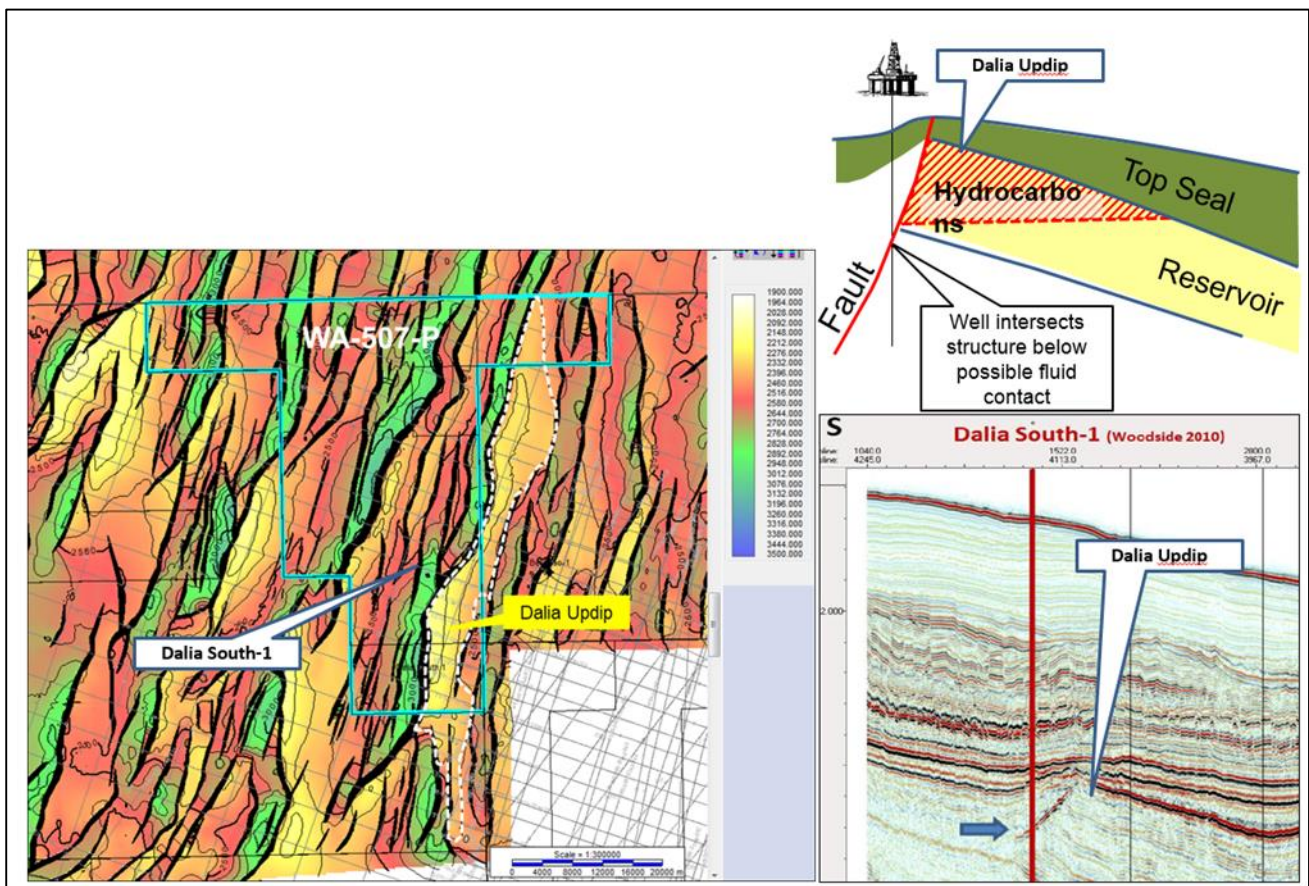
Another risk to be considered is the varying amounts of CO<sub>2</sub> and other inerts that have been found in the gas discoveries to date in this part of the basin.

RISC believes that the gas case is still attractive for potential farminees.

## 4.2. WA-507-P Prospects

## 4.3. Dalia Updip

The Dalia Updip prospect is a northeast – southwest trending three way fault bounded closure on an elongated horst block typical of all the leads in this area. The Dalia South-1 well did not intersect the top Mungaroo reservoir horizon as it came in on the downthrown side of the bounding fault and only penetrated older Mungaroo sediments well below the crest. The Jurassic Athol and Dingo Claystones of variable thickness provide the top and lateral seal to all the leads in WA-507-P and is considered the main risk for trap integrity. The reservoir is proven to be high quality sandstone with high porosities at nearby Belicose-1. Source is likely to be gas prone Triassic shales and coals which are mature for generation in this area at 3500 – 4000m and have provided the source of large nearby gas fields like Thebe. Evidence of local and recent gas generation is seen as gas chimneys on the seismic above structures in this area including the northern end of Dalia. There is a possibility of a more marine Triassic/ Jurassic source capable of generating oil which is being followed up by Pilot and other operators in the area, but this is yet to be proven.



**Figure 4-4: Dalia Updip Prospect**

The Updip Dalia closure extends out of the permit to the north and south to cover a maximum area of 280km<sup>2</sup> whereas the area within the permit is 60km<sup>2</sup>. The prospective resources documented by GCA are for those within the Permit of which, Pilot has an 80% interest. The crest of the closure is at 2,120m in approximately 1,350m of water.

#### **4.4. Beta**

The Beta prospect is the next rotated horst block to the west of Dalia Updip and also extends out of the permit to the north. Roughly 50% of the 220km<sup>2</sup> area that it covers is within WA-507-P. The crest of the closure is at 2,300m subsea and the water depth is approximately 1500m. The trap parameters are essentially the same as Dalia Updip as are the reservoir, seal and source risks.

#### **4.5. Gamma**

The Gamma Prospect is within the fault block immediately to the west of Beta Prospect and the closure is predominantly contained within the block boundary. The crest of the closure is at 2,250m subsea and the water depth is approximately 1500m. GCA sites a lower chance of success factor for source and migration in both Beta and Gamma than Dalia, due to the increased distance from the interpreted gas chimneys on the 3D seismic data.



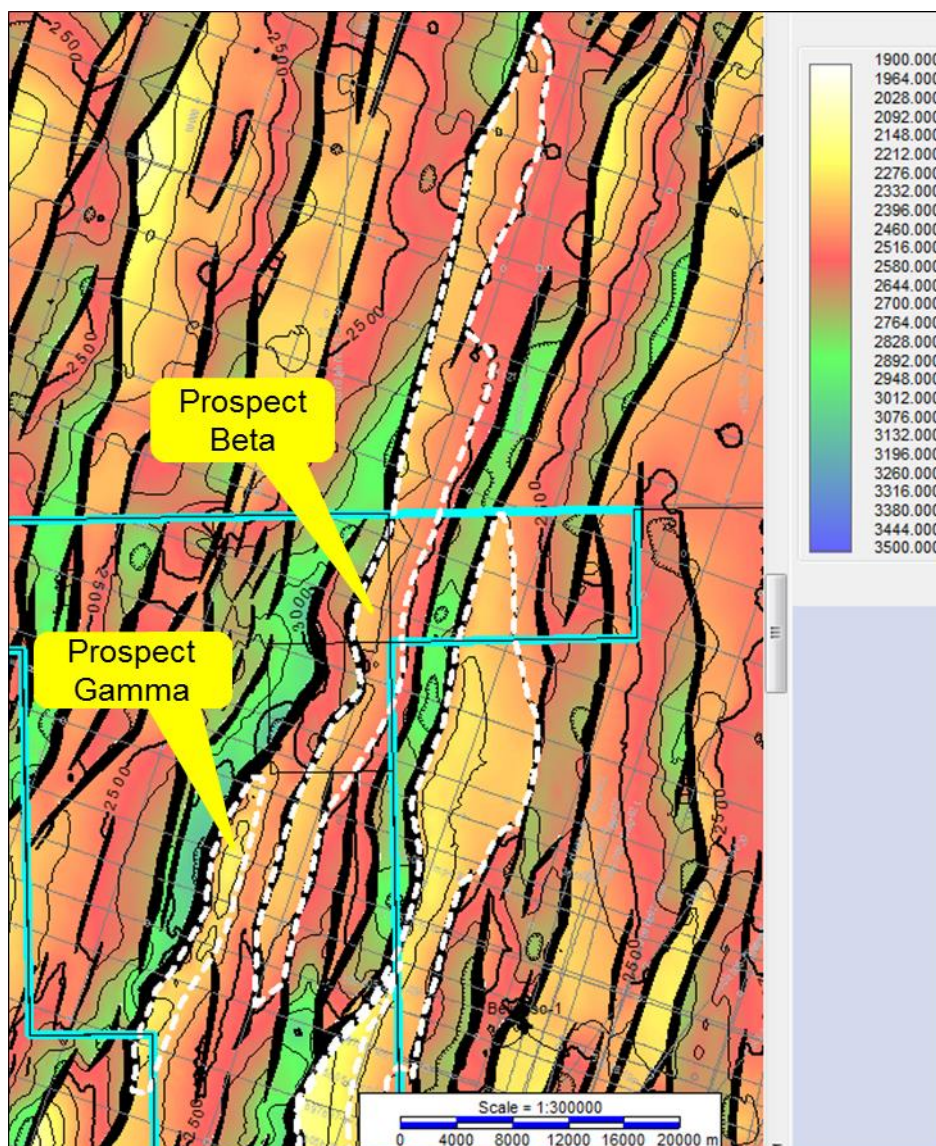


Figure 4-5: Beta and Gamma prospect depth map at Top Mungaroo

There is uncertainty in the mapping of the top depth structure in both Beta and Gamma due to depth conversion techniques that can be employed. GCA’s work did not include an evaluation of this uncertainty in the mapping and Pilot intends to carry out further investigation of depth conversion techniques and their consequence on the range of volumetrics. This is also the case for the Gamma prospect and can be seen in the comparison of prospective gas resources calculated by Pilot vs GCA in Figure 4-6. However the overriding remark is that these are potentially large gas resources that would capture the interest of major companies seeking to enhance their exploration portfolios. Pilot is in an excellent position to enhance their chance of success with further geological and geophysical studies including reprocessing the 3D data. This will provide the option for them to attract a farminee for, at a minimum a seismic option and at a maximum of drilling one or more wells.

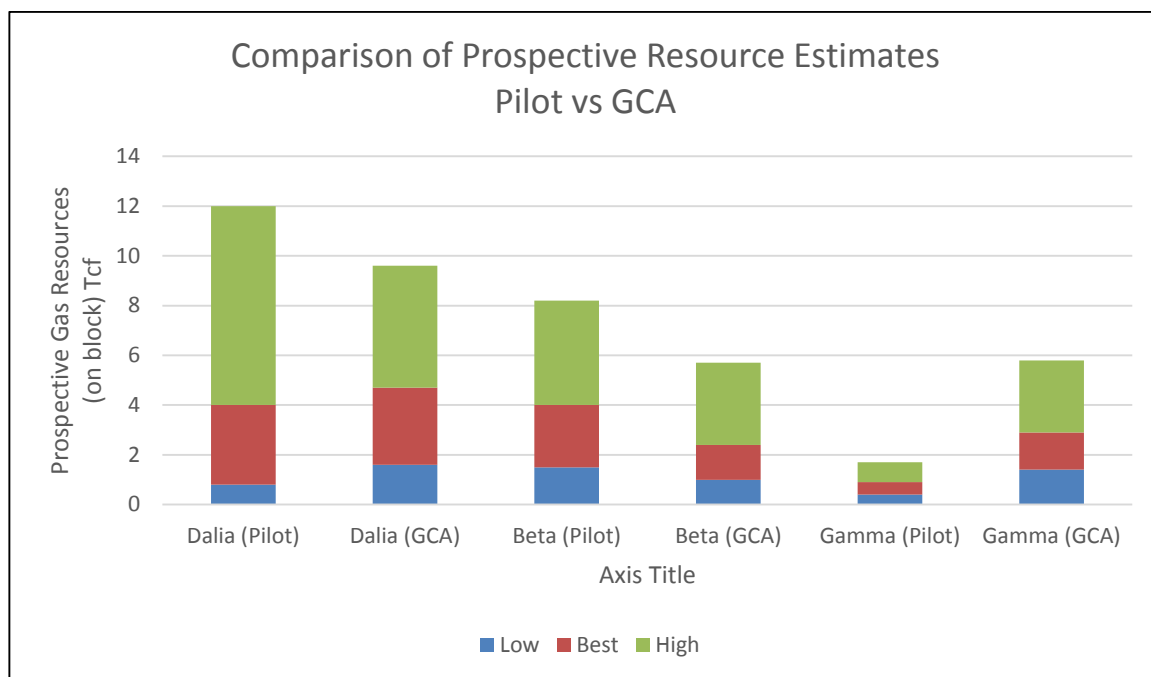


Figure 4-6: Comparison of Prospective Gas Resources calculated by Pilot and GCA

Table 4-2: WA-507-P Gas and Condensate Prospective Resources (by GCA) as at 31 January 2015

Lead	Gross Prospective Gas Resources on block (Tcf)			Net Prospective Gas Resources on block (Tcf)			GPOS
	Low	Best	High	Low	Best	High	
Updip Dalia	1.6	4.7	9.6	1.3	3.8	7.7	18%
Beta	1.0	2.4	5.7	0.8	1.9	4.6	16%
Gamma	1.4	2.9	5.8	1.1	2.3	4.6	16%
Total	4.0	10.0	21.1	3.2	8.0	16.9	

Lead	Gross Prospective Condensate Resources on block (MMbbl)			Net Prospective Condensate Resources on block (MMbbl)			GPOS
	Low	Best	High	Low	Best	High	
Updip Dalia	6.6	18.9	38.6	5.3	15.1	30.9	18%
Beta	4.0	9.7	22.7	3.2	7.8	18.2	16%
Gamma	5.5	11.5	23.1	4.4	9.2	18.5	16%
Total	16.1	40.1	84.4	12.9	32.1	67.5	

Table 4-3: WA-507-P Alternative Oil case Prospective Resources (GCA) as at 31 January 2015

Lead	Gross Prospective Oil Resources on block (MMbbl)			Net Prospective Oil Resources on block (MMbbl)			GCoS
	Low	Best	High	Low	Best	High	
Updip Dalia	250	764	1743	200	611	1394	18%
Beta	151	381	931	121	305	745	16%
Gamma	203	436	926	162	349	741	16%
Total	604	1581	3600	483	1265	2880	

#### 4.6. Status of Committed Program

WA-507-P was granted on 17 November 2014 for a 6 year term. The title was transferred to Rampart Energy Limited and Black Swan Resources Pty Ltd on 8 February 2015 and Rampart Energy Limited subsequently changed their name to Pilot Energy Limited which was announced to the ASX on 14 August 2015. RISC has relied on government documentation of approvals and permit awards provided by Pilot to ascertain the permit status.

The six year permit work programme details are given in (Table 4-4). The permit is currently in Year 2 with a firm commitment to conduct three years of geological and geophysical studies, including the licensing of the existing 3D seismic data across the permit. The secondary work program is also geological and geophysical studies with a discretionary well is required to be drilled before the end of Year 6.

Table 4-4: WA-507-P Permit Details and Work programme

Permit	Operator	Interest	Status	Permit Expiry Date	Work Commitments
WA-507-P	Pilot	Pilot 80% Black Swan 20%	Exploration Licence	16 November 2020	Year 1: G&G studies, 1,587 km <sup>2</sup> 3D seismic purchase \$1.55M Year 2: G&G studies \$0.25M Year 3: G&G studies \$0.25M Year 4: G&G studies \$0.25M Year 5: G&G studies \$0.25M Year 6: 1 well, G&G studies \$30.25M

Note that the above costs are indicative only.

The permit is currently in Year 2 and geological and geophysical studies based on the seismic data purchased in Year 1 are ongoing.

The outstanding liabilities are confined to the US\$912,500 balance of payment for the seismic purchase, and Year 2 and 3 commitments totalling AU\$500,000 in studies. The commitments beyond Year 3 are discretionary however the value in the block is dependent on getting the Year 6 well drilled.

Pilot and its joint venture partner are seeking to farm down either through seismic costs (US\$3.8 million including farmin equity uplift payment to seismic provider) and a well; or alternatively as a staged entry through a cash payment in order to earn an option to drill a well.

#### **4.7. Exploration Program Costs**

Pilot will be able to manage the costs of the G&G studies to within the AU\$250,000 commitment as long as they remain the operator.

The purchase of the existing 3D seismic data has been acquired under a special evaluation license from TGS. After a renegotiation of the original terms, payment of US\$250,000 was made in December 2015 and US\$912,500 will be paid for the data by the end of 2016. Then an additional US\$2.5M will be due upon successful farmout or on entering year 4 of the permit term. As this 3D is excellent quality and covers the entire permit it is unlikely that any new seismic will be acquired. There may, however, be a reprocessing of the existing seismic at some stage but this would fall within the G&G budget.

RISC estimates the dry hole well cost for a well to 2350m in 1350 m of water will be in the range of US\$20 – US\$25 million using a “rig of convenience” to minimise mobilisation costs. Note that for a single, short duration, deep water exploration well the likelihood of cost growth is high due to potential drilling problems, costly mob/demob liability, possible cyclone or other downtime. RISC would recommend adding a 30% contingency to our estimate. This is based on prevailing semi-sub rig rates that are at very low rates currently. If the oil price recovers RISC would expect rig rates to rise accordingly.

#### **4.8. Fiscal Terms**

WA-507-P is in Australian Federal Government waters and comes under the Petroleum Resource Rent Tax Assessment Act 1987. The fiscal terms of the PRRT are a profit-based tax levied on a petroleum project.

PRRT is currently applied to the recovery of all petroleum products from Australian Government waters (including crude oil, natural gas, liquid petroleum gas (LPG) condensate and ethane), except for petroleum products extracted from the North West Shelf project and the Joint Petroleum Development Area, and value added products such as liquefied natural gas (LNG).

From 1 July 2012, the PRRT became a compulsory tax applied to all Australian onshore and offshore oil and gas projects, including the North West Shelf, oil shale and coal seam gas projects.

PRRT is levied at a rate of 40 per cent of a project's taxable profit (that profit being calculated for PRRT purposes). Taxable profit is the project's income after all project and 'other' exploration expenditures, including a compounded amount for carried forward expenditures, have been deducted from all assessable receipts. PRRT payments are deductible for company income tax purposes.

## 5. WA-503-P (80% WI and Operator)

### 5.1. Overview

The WA-503-P permit is located in the Dampier Sub Basin, offshore, Australia and has an area of 80 km<sup>2</sup> (Figure 5-1). The permit is some 80 km offshore Western Australia in water depths of no greater than 70m. Past exploration in the area has been successful for medium sized, gas discoveries with Reindeer/Caribou (446Bcf 2P reserves, source Offshore Technology) to the southwest and oil fields at Legendre (48 MMbbl was produced, source Sub Sea IQ) and Hurricane.

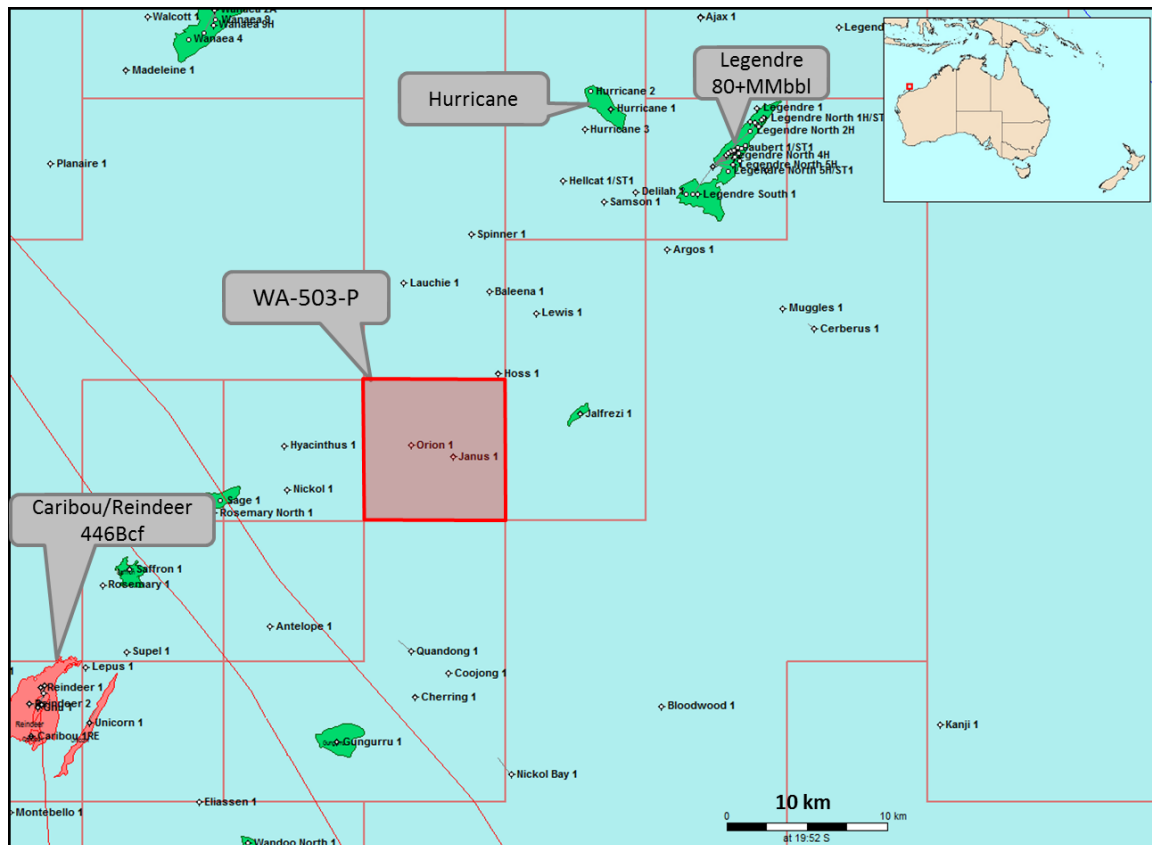


Figure 5-1: Location Map – WA-503-P

The permit was awarded on 13 May 2014 and through an agreement with Neon Energy Ltd, Pilot acquired an 80% interest. Pilot is partnered in the permit by Black Swan Resources Pty Ltd, which owns the remaining 20% interest in the permit and is carried for the primary term by Pilot.

Past exploration has seen two wells drilled in the permit with Woodside drilling Orion-1 (P&A) in 1990 and Apache drilling Janus-1 (Gas Shows) in 1998. The primary targets are the Lower Cretaceous to Upper Jurassic sandstone reservoirs within the Legendre oil trend, located on the western flank of the Lewis Trough (Figure 5-2).

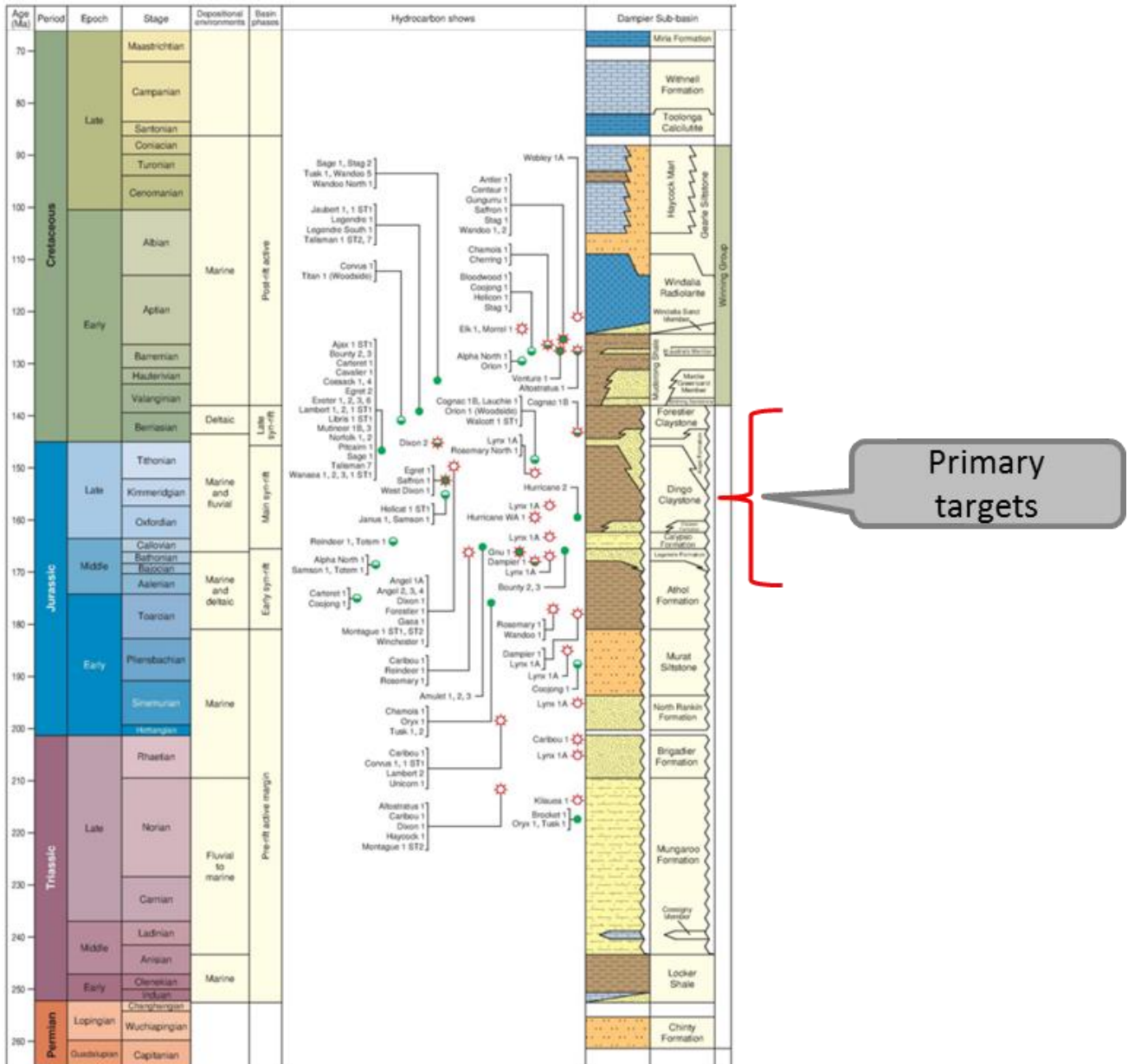


Figure 5-2: Dampier Sub Basin Stratigraphic Chart

Existing discoveries within and adjacent to the block confirm the presence of both a Lower Cretaceous and Upper Jurassic petroleum systems. Many play types exist in the area with the most recent Hurricane oil and gas discovery being a successful combination structural/stratigraphic trap in the Eliassen Formation reservoir. Pilot has already identified three exploration prospects based on the existing 3D seismic data at this play level and the shallower Angel and M. Australis sand levels. The prospects are structural plays and two are updip of the existing wells Orion-1 and Janus-1 (Figure 5-3 and Figure 5-4) which were drilled off structure. The Janus-1 well had 4m of oil shows in the Eliassen reservoir. The third structure is a buttress play on the down thrown side of a major fault that forms part of the Rosemary Fault system.

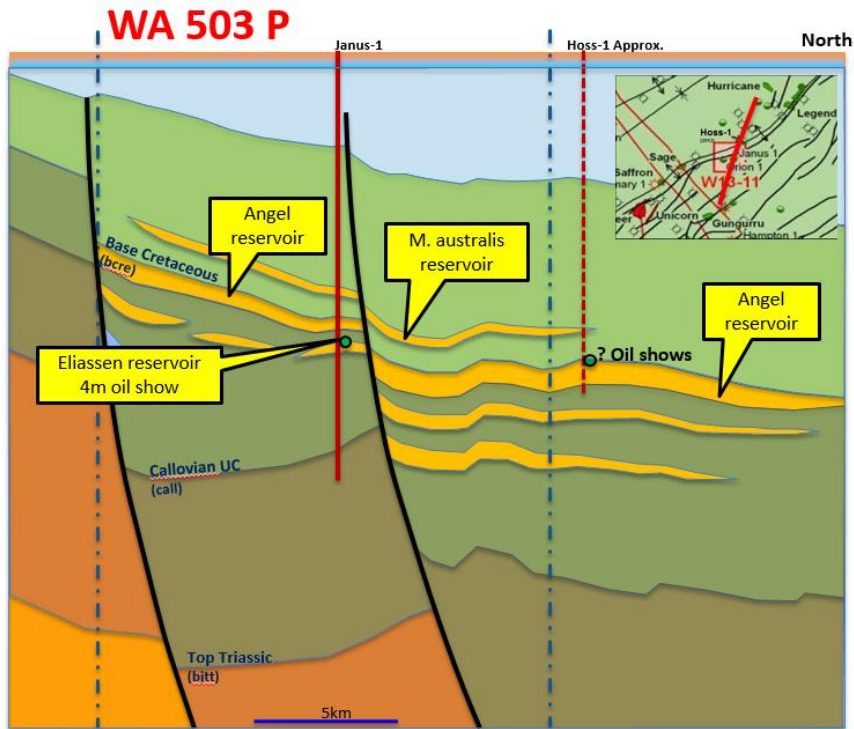


Figure 5-3: WA-503-P Play Diagram

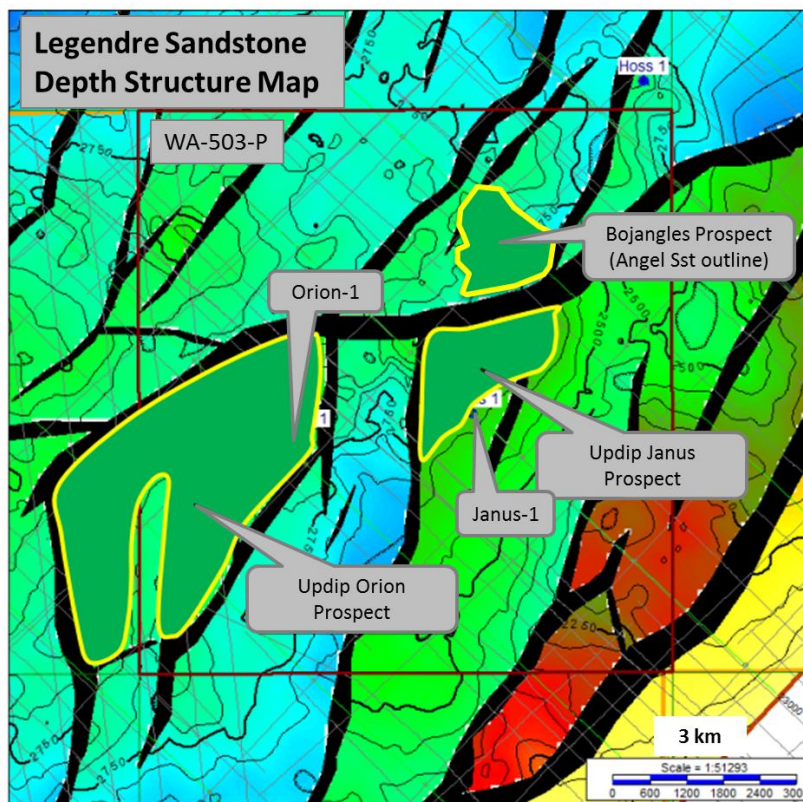


Figure 5-4: WA-503-P Prospects Map

## 5.2. WA-503-P Prospects

### 5.3. Updip Janus

Updip Janus is a small (2.5 km<sup>2</sup>) triangular fault block dipping to the southeast and bounded to the west and north by faults. The seal at the Legendre level is an expanded Dingo Claystone section laterally juxtaposed across the bounding faults. At the Eliassen Formation level it is the Lower Muderong Shale. The existing seismic is not very clear over the crest of the structure. The reservoirs penetrated in Janus-1 have been the subject of a recent petrophysical review. The Legendre Formation was over 100m thick and between 2365m and 2465m RT had a net to gross of 64% and an average porosity of 20.4%. The Eliassen Formation encountered at 1885m RT was 67m thick with a net to gross of 42.7% and an average porosity of 16.8%. These are excellent reservoirs that produce with high recovery factors in the 50 – 80% range in nearby fields like Legendre, Saladin and Griffin. GCA estimate the best case, gross prospective resources for the Eliassen and Legendre to be 6.9MMbbls and 3.1 MMbbls respectively with a 17% GPOS for the Legendre level and 24% GPOS for the Eliassen level reflecting the occurrence of oil shows at this level in Janus-1. RISC believes that GCA has captured the range of uncertainty for the in place resources but has been conservative on the upside for recovery factors in WA-503-P prospects in comparison to nearby field analogues.

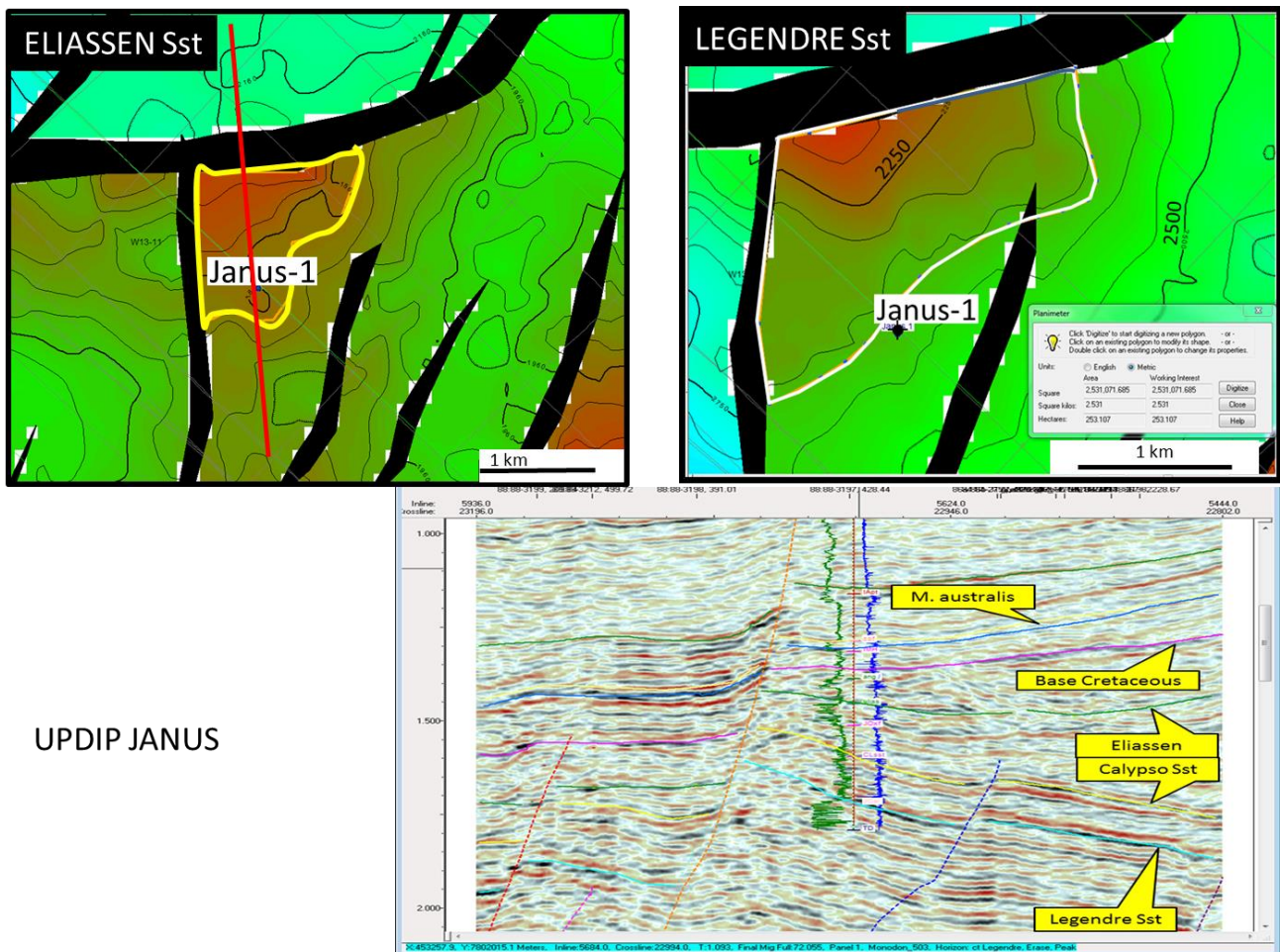


Figure 5-5: WA-503-P Updip Janus Prospect



## 5.4. Updip Orion

The Legendre sandstone play was not tested by Orion-1 which was terminated after testing the Eliassen Formation. Pilot have captured a wide range in structural closure uncertainty from 3.2km<sup>2</sup> for a single fault dependent closure updip of Orion-1 to 23.6 km<sup>2</sup> for a closure that requires multiple faults to seal at a Lowest Closing Contour (LCC) of 2750m (including areas outside the block boundary). Reservoir parameter in the Legendre sandstone are taken as being similar to Janus-1. GCA's best estimate for prospective resources within the block are 25.1 MMbbls making this the largest prospect in WA-503-P with a 15% GPOS. In the Eliassen Formation in Orion-1, there is a 5m sand with a resistivity anomaly on the logs which could be oil saturation. If it is an indication of oil there is a 17% GPOS of there being an accumulation updip of Orion-1. In the Eliassen and M. Australis formation the small updip Orion-1 closures could contain 1.1 MMbbls and 2.9 MMbbls respectively (Gross Best Estimate Prospective Resources, GCA).

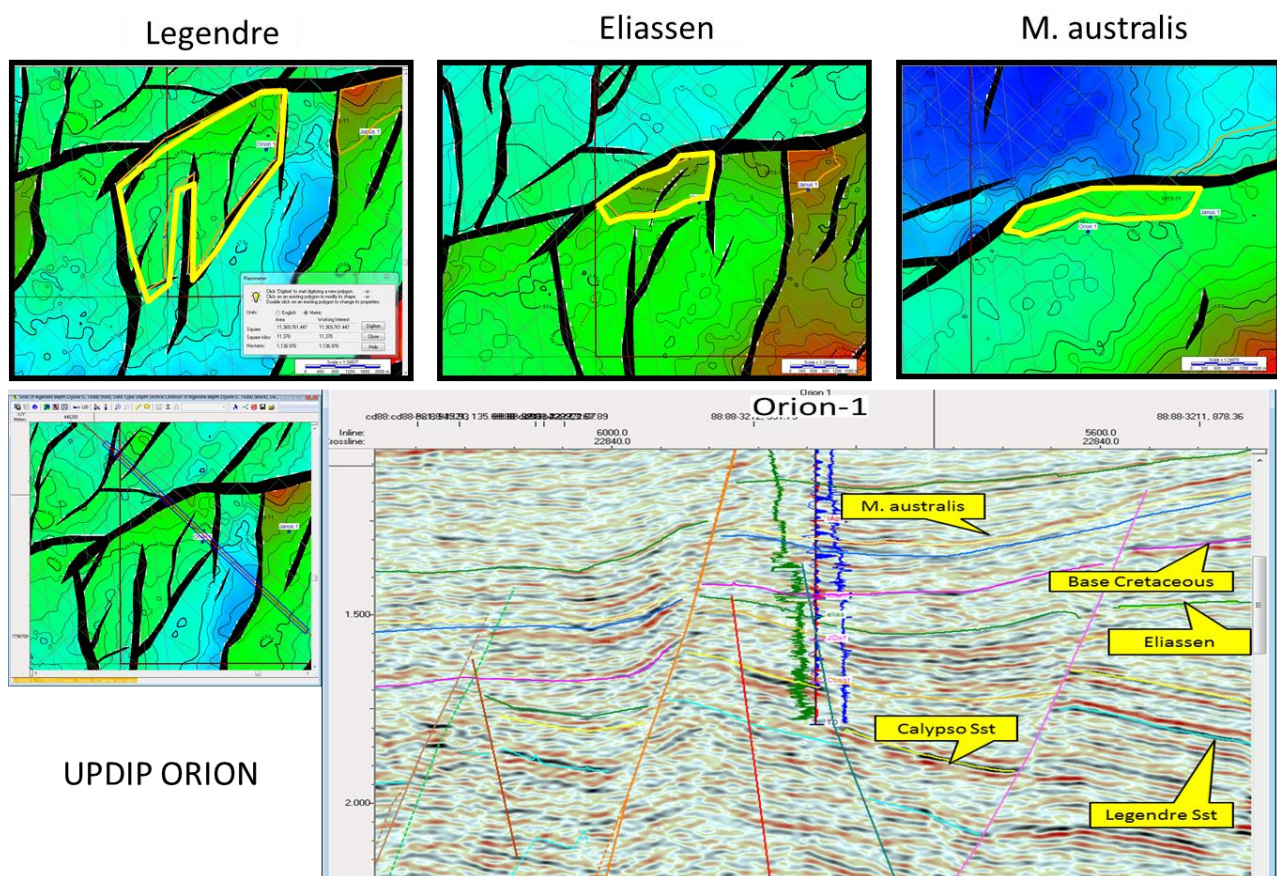


Figure 5-6: WA-503-P Updip Orion Prospect

## 5.5. Bojangles

The Bojangles prospect is a three way dip closure or “buttress” closure, on the downthrown side of the Rosemary fault trend. It is adjacent to the Updip Janus prospect. The targets are the M Australis and Angel Sandstone. The M Australis Sandstone is juxtaposed Muderong and Dingo shales as well as the dip closed Angel Sandstone on the upthrown side in the Janus prospect. The Angel Sandstone is similarly juxtaposed against the Dingo Claystone and the dip closed Eliassen Sandstone which had the oil shows in it at Janus-1.

The mapped structural closure is small at both levels. GCA estimate the Best estimate Prospective Resources to be around 3.5 MMbbls in each reservoir with a 17% GPOS.

RISC believes that at current oil prices this is too small to be a standalone target but new Broadband 3D may de-risk this and the other prospects and also define additional stratigraphic trapping upside to these plays.

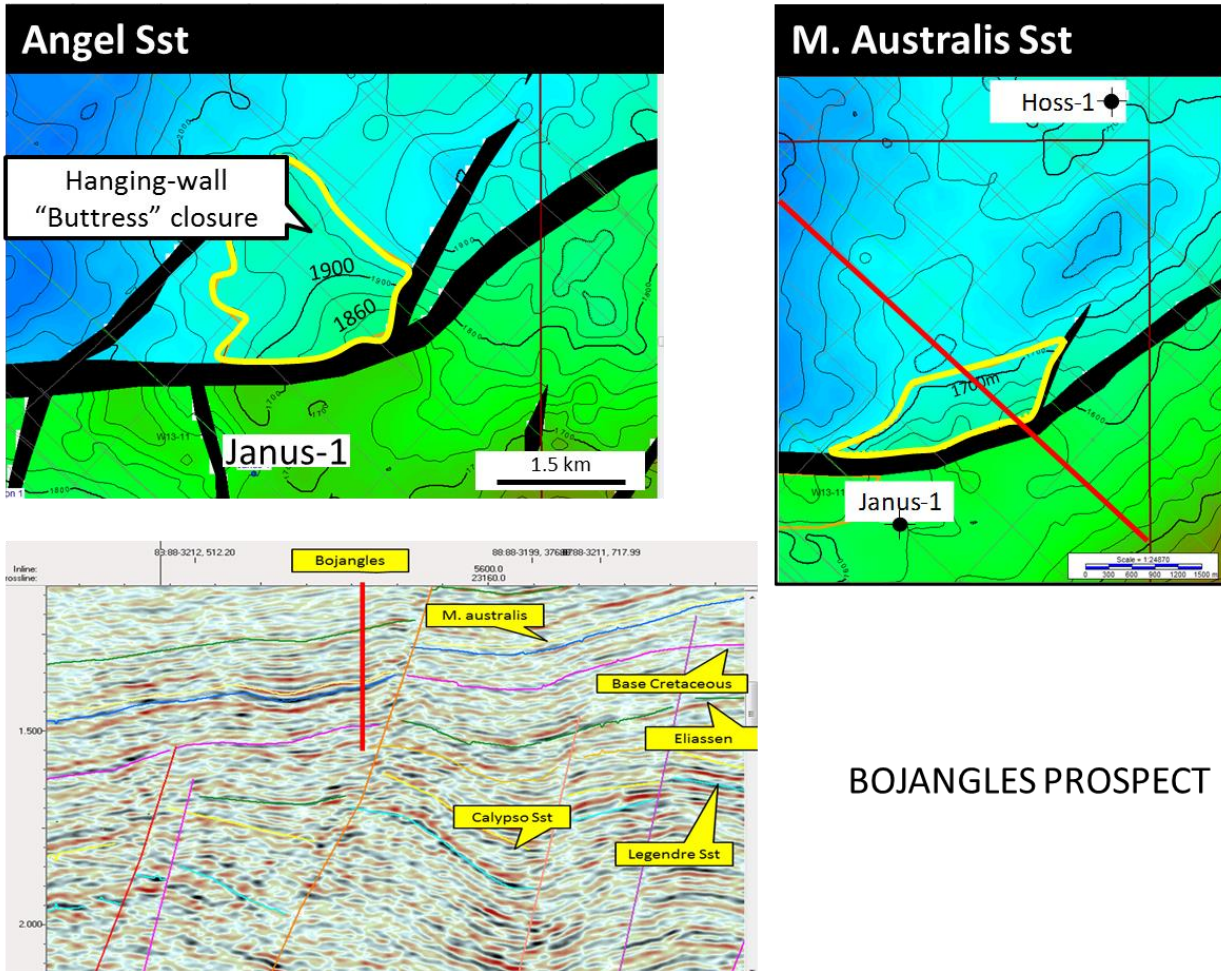


Figure 5-7: WA-503-P Bojangles Prospect

## 5.6. WA-503-P Prospective Resources

GCA has calculated the following prospective resources for the three prospects in WA-503-P:

**Table 5-1: WA-503-P Oil Prospective Resources by reservoir (GCA as at 30<sup>th</sup> November 2015)**

Prospects	Reservoir	Gross Prospective Resources (MMBbl)			Net Prospective Resources (MMBbl)			GPOS
		Low	Best	High	Low	Best	High	
Udpip Janus	Legendre	3	6.9	13.5	2.4	5.5	10.8	17%
	Eliassen	1.5	3.1	6.2	1.2	2.5	5.0	24%
Udpip Orion	Legendre	7.6	25.1	63.5	6.1	20.1	50.8	15%
	Eliassen	0.6	1.1	2.1	0.5	0.9	1.7	17%
	M Australis	0.6	2.9	7.2	0.5	2.3	5.8	17%
Bojangles	Angel	1.5	3.4	6.9	1.2	2.7	5.5	17%
	M Australis	1.5	3.5	7.1	1.2	2.8	5.7	17%

**Table 5-2: WA-503-P Oil Prospective Resources by lead (GCA as at 30<sup>th</sup> November 2015)**

Prospects	Gross Prospective Resources (MMBbl)			Net Pilot (80%) Prospective Resources (MMBbl)		
	Low	Best	High	Low	Best	High
Udpip Janus	4.5	10	19.7	3.6	8.0	15.8
Udpip Orion	8.8	29.1	72.8	7.0	23.3	58.2
Bojangles	3	6.9	14	2.4	5.5	11.2
Total	16.3	46	106.5	13.0	36.8	85.2

## 5.7. Status of Committed Program

WA-503-P was granted on 13 May 2014 to Neon Energy Limited. On 28 March 2015 the equity in the permit was transferred by a deed of assignment to Rampart Energy Limited (80%) and Black Swan Resources Pty Ltd (20%). Rampart Energy Limited subsequently changed their name to Pilot Energy Limited which was announced to the ASX on 14 August 2015. RISC has relied on government documentation of approvals and permit awards provided by Pilot to ascertain the permit status.

The six year permit work program details are given in (Table 5-3). The permit is currently in Year 2 with a firm commitment to conduct three years of geological and geophysical studies, including the commitment to acquire 80 km<sup>2</sup> of new “Broadband” 3D seismic data across the permit. The company successfully applied to

the National Offshore petroleum Titles Administrator (NOPTA) for a Transitional Work programme Variation, the effect of which is to combine the primary term work commitments of each of years one to three, into commitments which must be fulfilled by the three year anniversary date; being 12 May 2017. In the event that the joint venture elects to proceed to the discretionary second term an exploration well is required to be drilled in Year 4.

**Table 5-3: WA-503-P Permit Details and Work programme**

Permit	Operator	Interest	Status	Permit Expiry Date	Work Commitments
WA-503-P	Pilot	Pilot 80%  Black Swan 20%	Exploration Licence	14 May 2020	Year 1–3: G&G studies, 80 sq km 3D seismic \$1.55M  Year 4– 1 well \$22.5M  Year 5– G&G studies \$0.3M  Year 6– G&G studies \$0.2M

Pilot has signed an agreement with CGG to acquire broadband seismic data over the 80 km<sup>2</sup> permit as part of a greater multi-client survey. Pilot is awaiting confirmation of the acquisition occurring in 2016, dependent on vessel availability.

The outstanding liabilities are restricted to the costs of the seismic data acquisition and processing and ongoing G&G studies including special processing (QI and AVO) studies totalling AU\$1.55 million over the first three years.

The drill or drop decision date is 12 May 2017 after which the liability is for one exploration well which will have to be drilled in Year 4 costing A\$22 million as per the commitment.

Pilot and their joint venture partner intend to farm down their equity to recoup seismic and well costs and have started a farmout process.

## 5.1. Exploration Program Costs

The seismic acquisition and processing is budgeted at US\$500,000. Special processing (QI and AVO) will be included in the G&G studies budget. No other seismic acquisition is likely during the permit term.

RISC has reviewed the dry hole well cost estimate and concludes that a well in 70m of water that will be drilled with a jack-up rig of convenience to minimise mobilisation costs to a prospect depth of 2500m would cost US\$15 - 20 million dollars. We would recommend a 30% contingency to our estimate and warn that this is based on prevailing jack-up rig rates that are very low currently. If oil price recovers we would expect the rates to rise accordingly.



## 6. EP416 and EP480 (60% WI and Operator)

### 6.1. Overview

The EP416 and EP480 permits are located in the southern Perth Basin, on the coast of Western Australia between the towns of Mandurah and Bunbury (Figure 6-1). The contiguous blocks have a combined area of 2,310 km<sup>2</sup> and have only been sparsely explored with only 2 wells drilled in the 1960's and one recent well, GSWA Harvey-1, drilled by the government as part of the carbon geosequestration study in 2012.

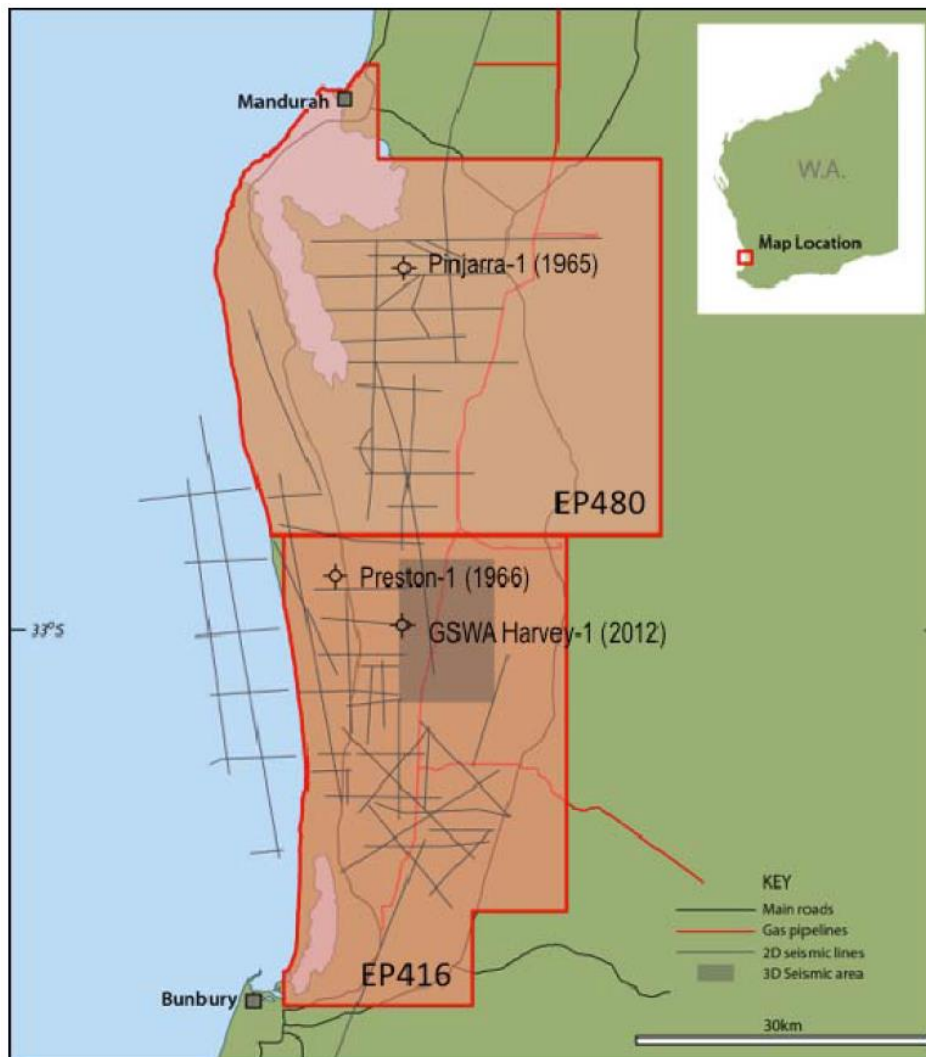


Figure 6-1: Location Map – EP416 and EP480

Pilot has farmed into both permits and under an agreement with Empire Oil Limited, Pilot funded the cost of the recently acquired airborne geophysical survey over the permits. Pilot has earned a 60% interest in EP416 and EP480 and assumed operatorship of both permits. The assignment of the interest and operatorship has been approved by the West Australian Department of Mines and Petroleum.

Exploration in the Perth Basin in the past has been focused in the northern part of the basin with the southern part only lightly explored. The limited drilling in the two permits has confirmed the presence of a Permian petroleum system with the primary reservoir target being the Permian Sue Group sandstones and the Triassic age Lesueur sandstones. It is proposed that gas will be generated from mature Permian coal measures (Figure 6-2) located in kitchens within the permits.

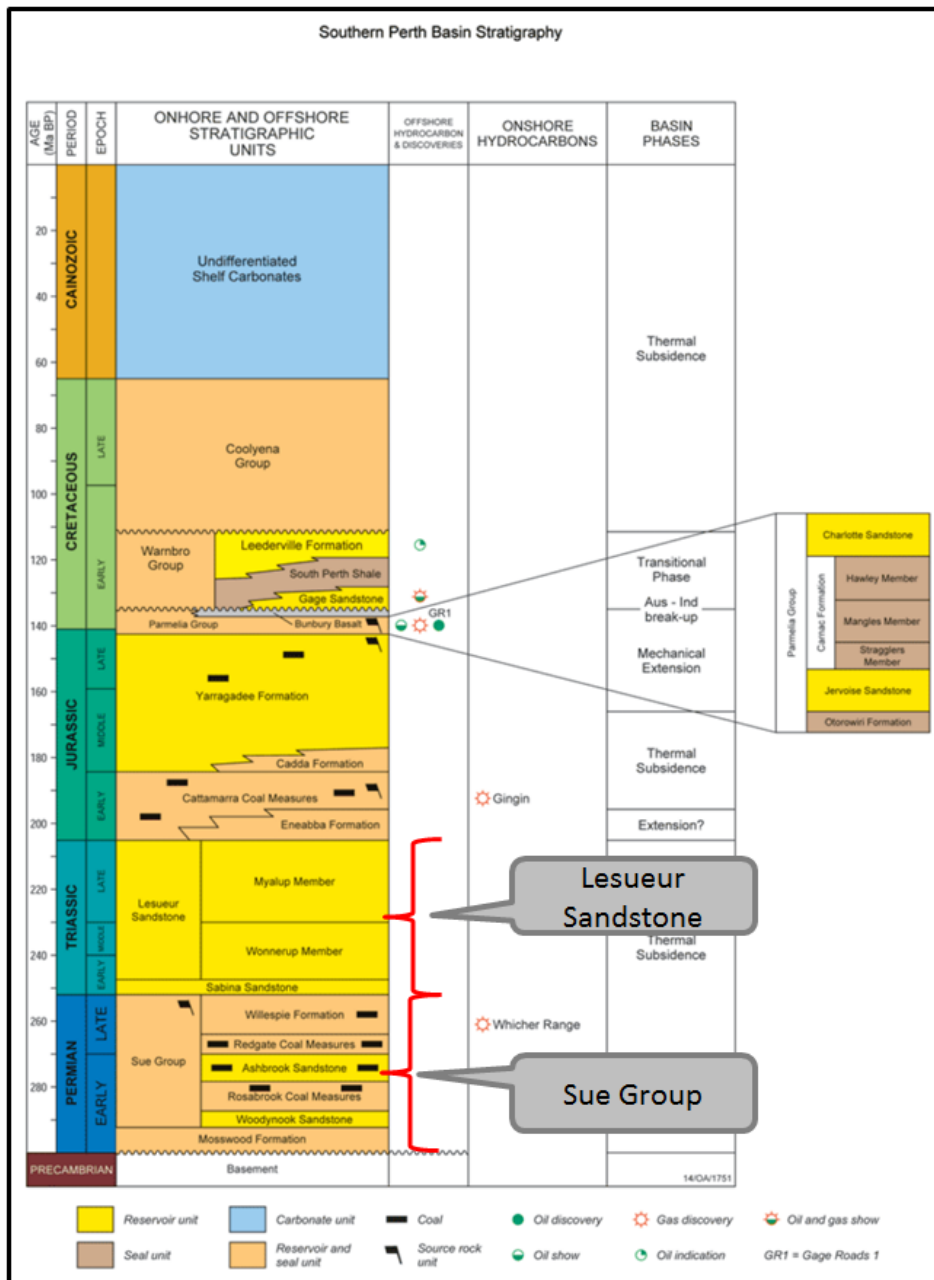


Figure 6-2: Southern Perth Basin Stratigraphy

## 6.2. Leschenault Prospect

Existing 2D seismic data confirms the Leschenault Prospect which is a large faulted anticline structure straddling both permits, with over 200km<sup>2</sup> of mapped areal closure at the Top Permian, Sue Group sandstone level (Figure 6-3). The reservoir target is currently at a depth of 2250 – 2500m but was previously buried deeper before an estimated 600m of uplift occurred during the Jurassic rifting making the quality of the reservoir a minor concern. The porosity of the Sue Group is as low as 3% in Lake Preston-1 and about 5% in Whicher Range, both deeper than at Leschenault. Pilot have analysed the pre-uplift average depth of burial of the Leschenault Prospect target to be 3350m providing an average 7% porosity from the calibrated porosity depth curve with good evidence from the Harvey-1 well that it could be higher.

The top seal is provided by the Eneabba Formation which over lies the Lesueur Sandstone and is 209m thick at Lake Preston-1. Top seal and cross-fault seal are the major risk for the prospect.

The regional gravity data shows the presence of a depocentres in the northeastern and eastern part of the permit. The prospect is located updip of these possible “gas kitchens” on the flank of a regional gravity high. The Sue Coal Measures are known to be a source for gas in the basin with TOC up to 54%. They are likely to be generating at the present day but not as well as they have done before the Jurassic uplift.

LESCHENAULT  
PROSPECT

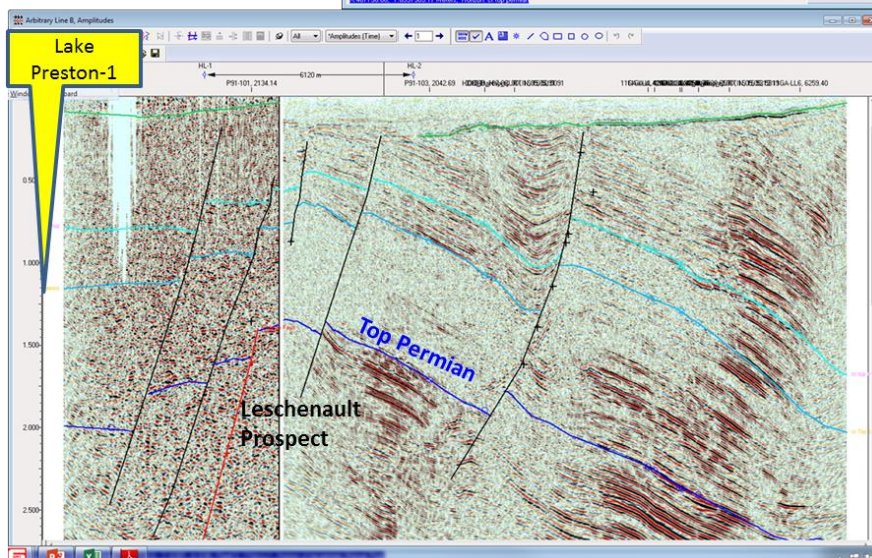
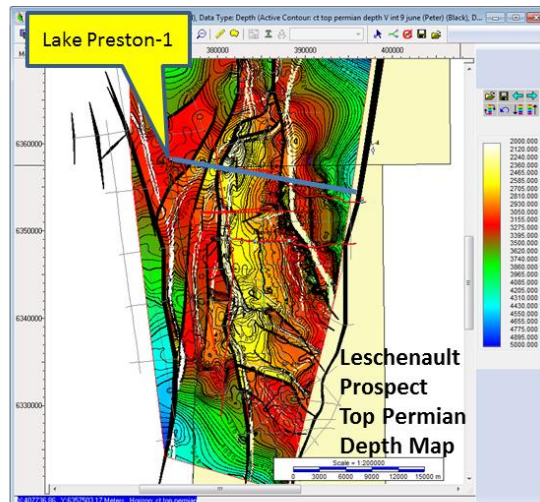


Figure 6-3: EP416 and EP480 Leschenault Prospect



### 6.3. EP416 and EP480 Prospective Resources

Pilot has estimated the following prospective resources for the Leschenault Prospect in Table 6-1. RISC has reviewed the methodology and inputs that Pilot have used and find them reasonable and at this stage in the prospect development they have captured the large range in uncertainty.

Table 6-1: EP416/480 Prospective resources for Leschenault Prospect as at 31st January 2015

Prospect	Reservoir	Gross Prospective Resources (100%) Bcf			Net Pilot Prospective Resources (60%) Bcf			GPOS (RISC)
		Low	Best	High	Low	Best	High	
Leschenault	Sue Sandstone	30	130	300	18	78	180	18%
	Lesueur Sandstone	60	140	300	36	84	180	22%
Total <sup>1</sup>		90	270	600	54	162	360	

A gas discovery of this magnitude, 5km from the Dampier-Bunbury Gas Pipeline and adjacent to major customers like Alcoa, would have significant value for Pilot.

### 6.1. Status of Committed Program

The EP416 permit was renewed on the 16 August 2006 and expired on the 31 March 2016. The Joint Venture has been in discussion with the WADMP, who are receptive to the renewal of the permit, which has been applied for. The proposed work programme has G&G studies in the first 4 years and then one well in Year 5 (Table 6-2). Despite the current expired status of the permit, RISC is comfortable that the Joint Venture will be able to renew the permit. RISC has relied on government documentation of previous approvals and permit awards provided by Pilot to ascertain the permit status.

Table 6-2: EP416 Permit Details and Proposed Renewal Work Programme

Permit	Operator	Interest	Status	Permit Expiry Date	Proposed Renewal Work Programme
EP416	Pilot	Pilot 60% Empire 40%	Exploration Licence	30 June 2022	Year 1–4: G&G studies Year 5– 1 well \$5M

The EP480 permit was granted on the 6 June 2012 and the same farmin terms apply to this permit as to EP416. The six year permit work programme details are given in Table 6-3. The permit is currently in Year 2. Empire has successfully applied for a 12 month suspension of EP480 from 31 March 2016 to 31 March 2017. The Year 2 commitment has to be completed by 31 March 2017. Year 3 commences on 1 April 2017. Pilot and Empire intend to apply to the DMP to replace the 50km seismic commitment with a program that is more suited to the prospect, with an associated deferral of the well commitment.

RISC has relied on government documentation of approvals and permit awards provided by Pilot to ascertain the permit status.

Table 6-3: EP480 Permit Details and Work programme

Permit	Operator	Interest	Status	Permit Expiry Date	Work Programme
EP480	Empire	Pilot 60%  Empire 40%	Exploration Licence	31 March 2020	Year 1: G&G studies \$0.25 Year 2: 1,938 geophysical survey, 50 km 2D seismic \$1.773M Year 3: 1 well \$4.5M Year 4: G&G studies \$0.25 Year 5: 1 well \$4.5M Year 6: G&G studies \$0.25

### 6.1. Exploration Program Costs

Well costs to drill a 3000m well in this area are likely to be in the US\$5-8 million dollar range on a dry hole basis. In 2012 Harvey-1 was drilled to a total depth of 2945m in 44 days. 2D seismic is expected to cost between US\$20,000 and US\$30,000 per km.

## 7. EP437 (13.058% WI)

### 7.1. Overview

The EP437 permit is located in the northern Perth Basin, on the coast of Western Australia between the towns of Geraldton and Dongara (Figure 7-1). Past exploration in the area has discovered the commercial gas field at Dongara and the oil fields at Jingemia/Hovea and Mt Horner. The offshore Cliff Head oil field is located 28km to the south. The permit has an area of 720 km<sup>2</sup> and has a moderate level of exploration drilling, especially in the south of the permit.

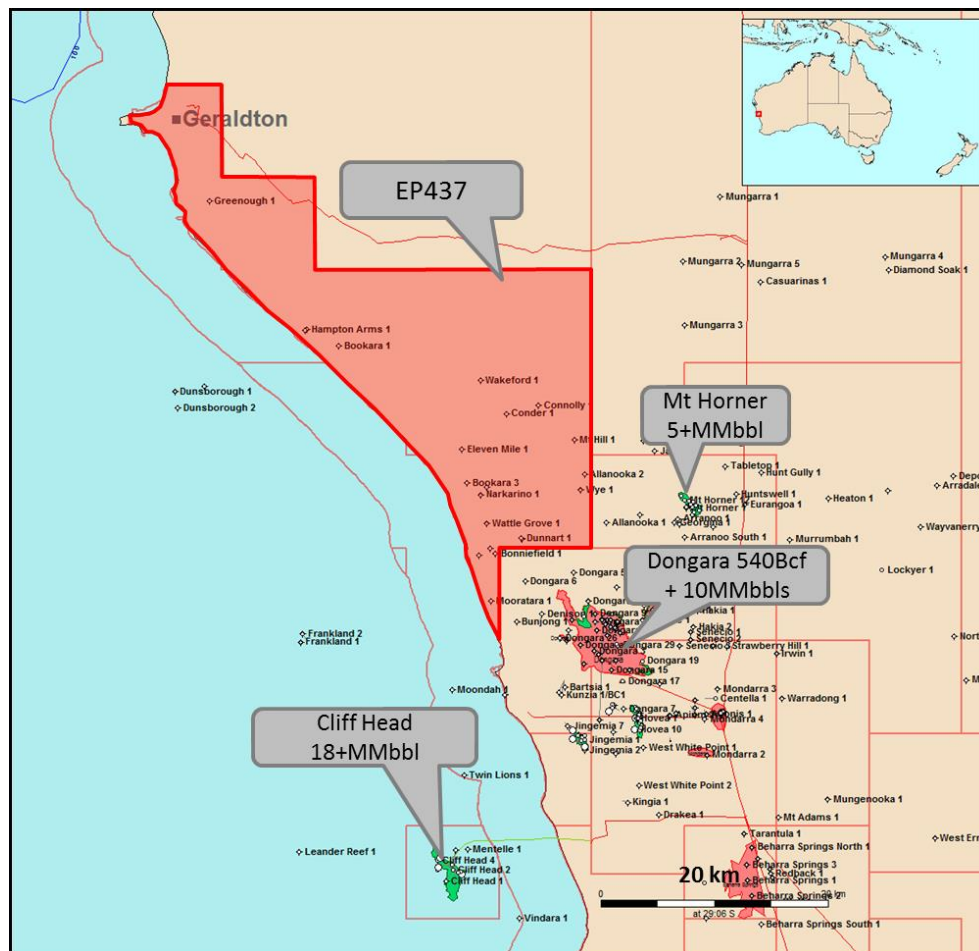


Figure 7-1: Location Map EP437

Pilot acquired an interest in EP437 through an agreement with Caracal Exploration Pty Ltd. The assignment of interest has recently been approved by the West Australian Department of Mines & Petroleum. The joint venture interests subsequent to the assignment are:

Key Petroleum Ltd	43.471% (Operator)
Rey Resources Ltd	43.471%
Pilot Energy Ltd	13.058%

EP437 provides Pilot with participation in a low cost onshore oil and gas play, in a permit in which past drilling has established a working petroleum system and prospects have been mapped on trend with adjacent oil and gas discoveries. The proximity to infrastructure in this part of the Perth Basin enables even small discoveries to potentially be commercialized.

Preliminary interpretation by Pilot of existing well and seismic data has matured three; shallow prospects, all updip from the Dunnart-1 and 2 wells which both had oil shows. The primary reservoir targets are the early Triassic Arranoo sandstones and the Late Permian Bookara sandstones (Figure 7-3).

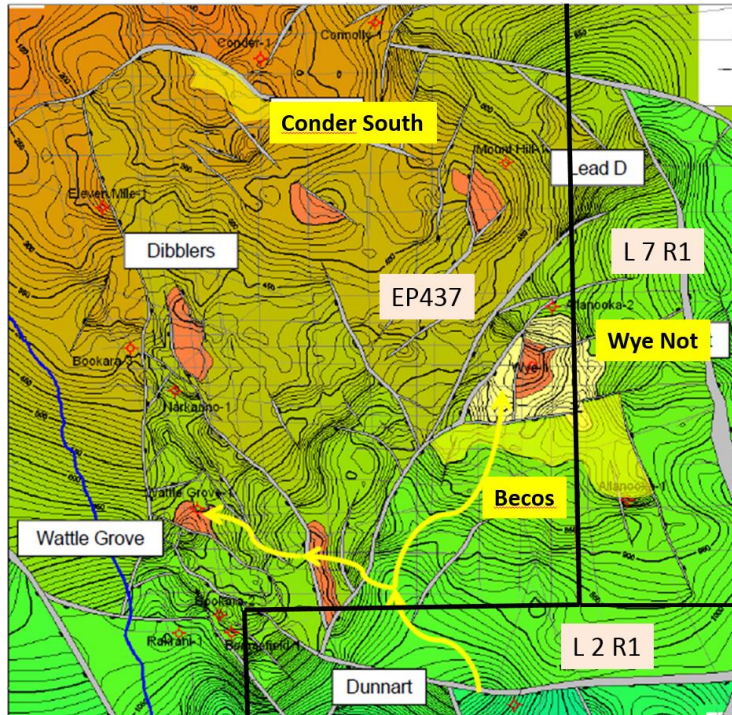


Figure 7-2: EP437 Prospect and Lead Location Map

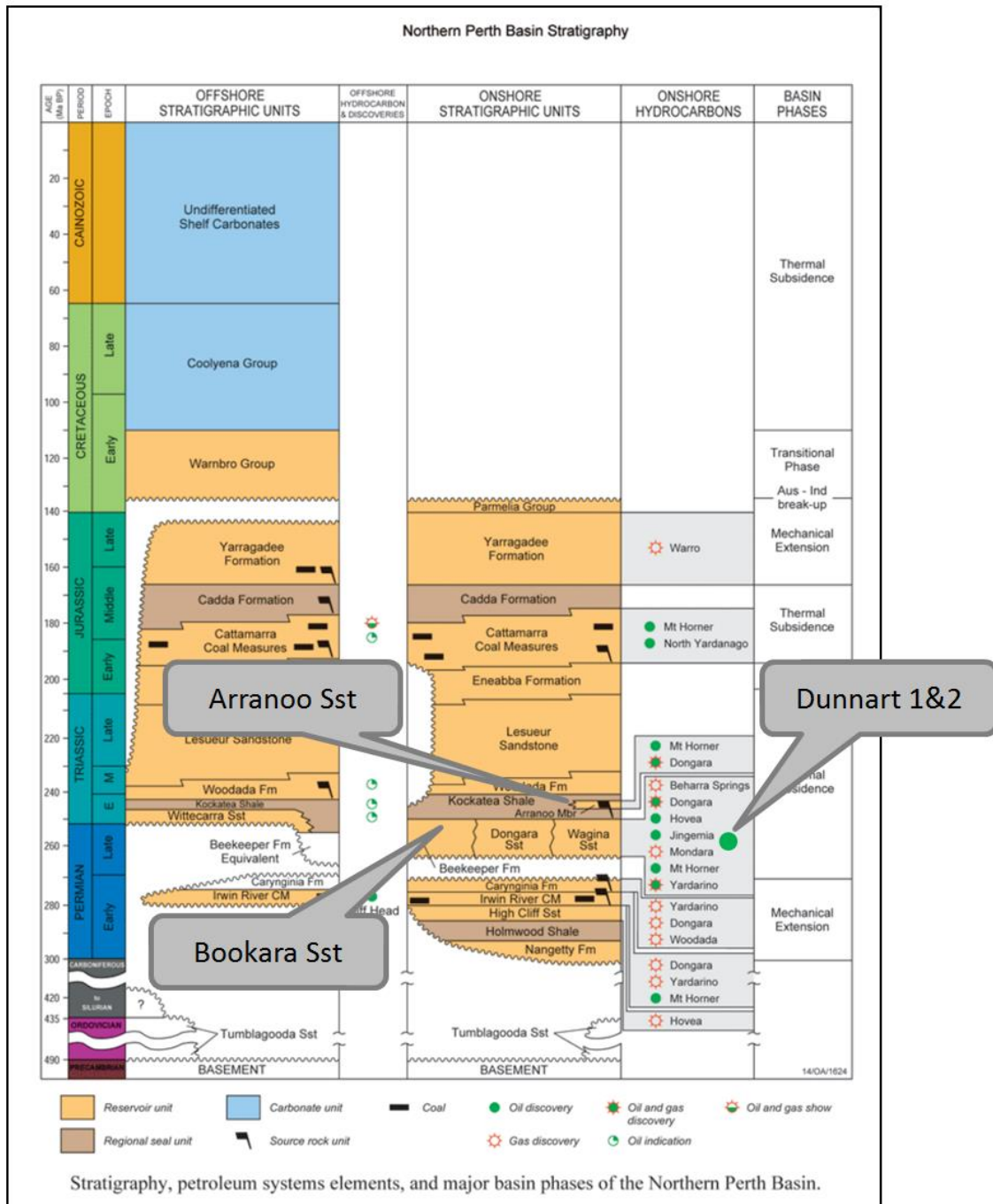


Figure 7-3: Northern Perth Basin Stratigraphy

## 7.2. EP437 Prospects

Pilot's assessment of prospective resources for EP437 is at a preliminary stage, including the Wye Not, Becos and Conder South prospects. All three are small and high risk prospects but are shallow and can be drilled at a low cost.

### 7.3. Wye Not

The Wye Not prospect is a follow up to the Wye-1 well drilled in 1996 which tested gas at 4.4 MMscfd in the Triassic Bookara Sandstone and 2.4 MMscfd in the Arranoo Sandstone. Wye Not is a downdip appraisal well opportunity looking for a possible oil leg. Evidence of an oil leg comes from good oil shows in these reservoirs indicating that gas may have displaced the oil downwards. An added complication was the high (300ppm) H2S content in the gas from the Bookara Sandstone and the depletion on test in the Arranoo Sandstone. The prospect is small and extends across the permit boundary into permit L 7 R1. The reservoir, seal and gas source are proven by Wye-1 but the prospect is high risk for oil.

WYE NOT PROSPECT

Wye-1

Bookara Sandstone  
Gas cap? with oil shows

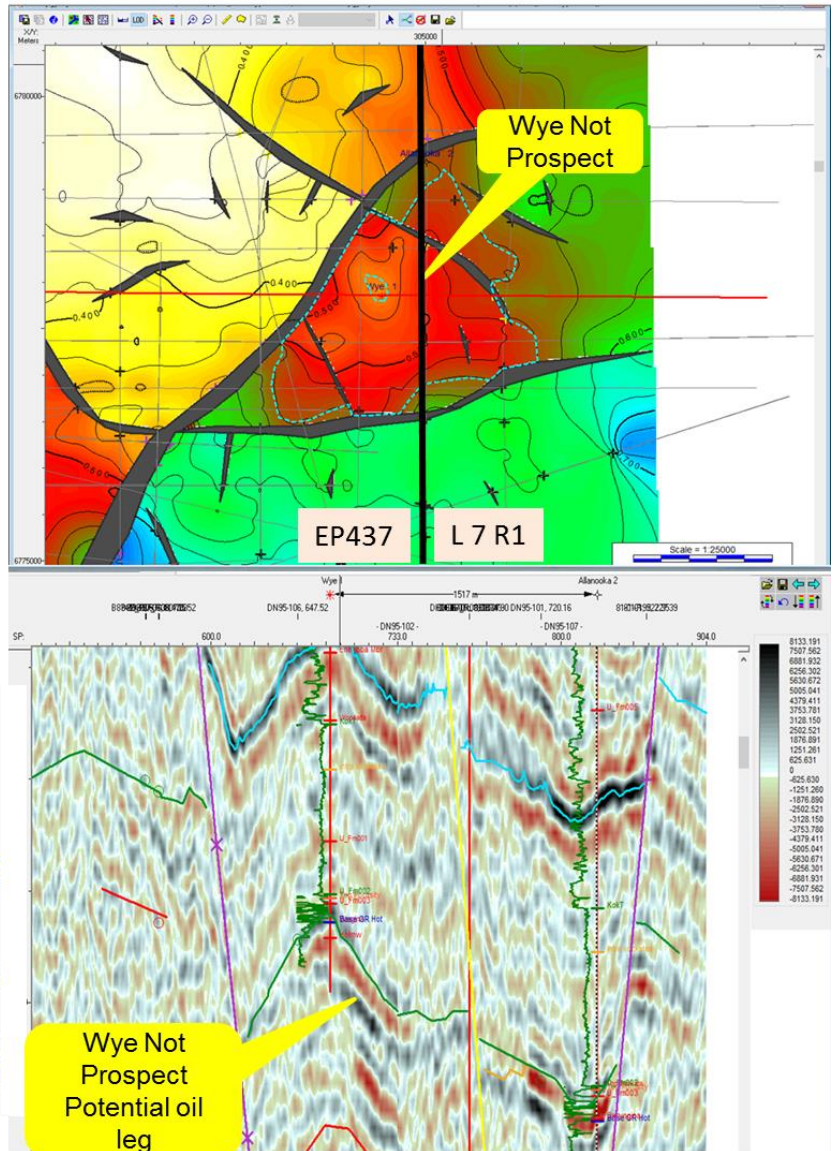
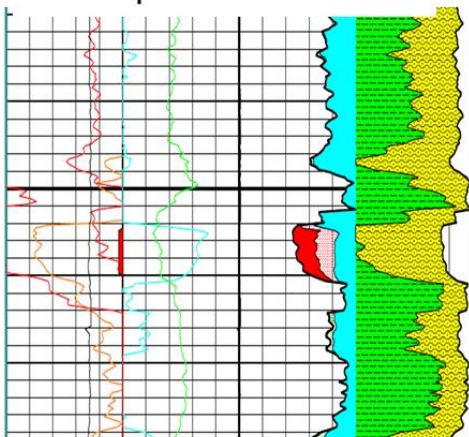
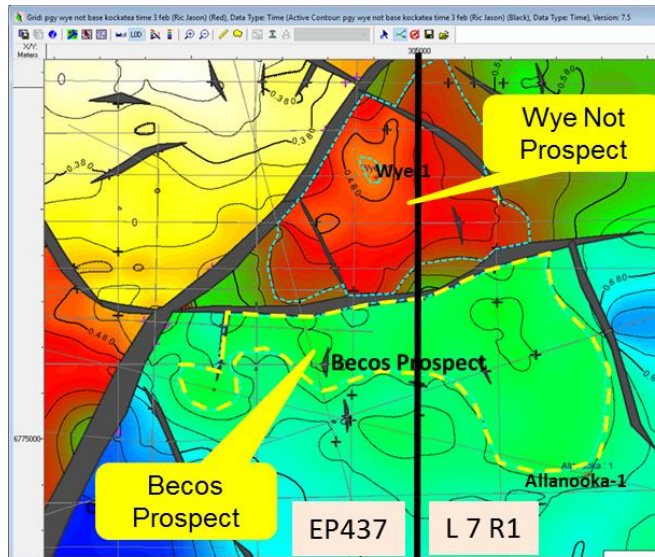


Figure 7-4: Wye Not Prospect

## 7.4. Becos

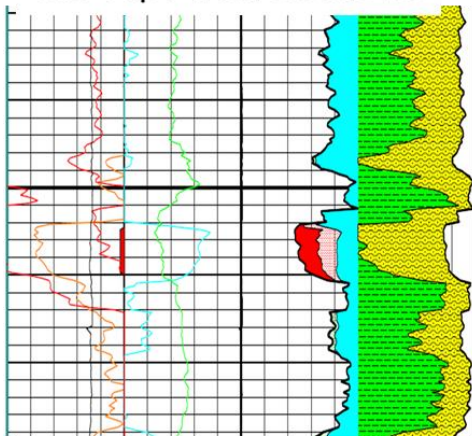
The Becos prospect is a downthrown dip closure against an east-west fault that separates the Wye/Wye Not structure from a dry down dip well, Allanooka-1 which tested water. The prospect is dependent on success of Wye Not-1 finding oil in either the Bookara or Arranoo sandstones and relies on the concept that Allanooka-1 narrowly missed an oil column. The prospect is small and more than half of the area that it covers is outside the permit boundary. It is also high risk on oil charge, seal and trap.

### BECOS PROSPECT



Wye-1

Bookara Sandstone  
Gas cap? with oil shows



Allanooka-1 was dry

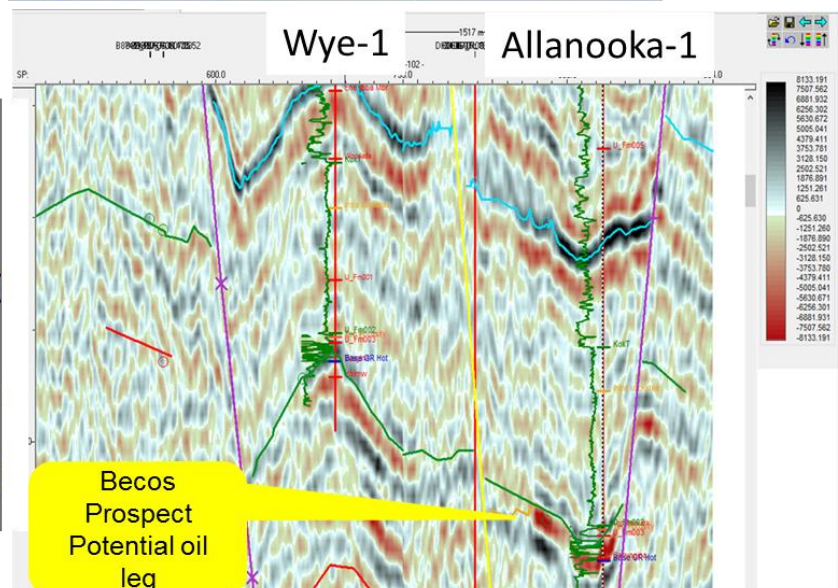


Figure 7-5: Becos Prospect

## 7.5. Conder South Prospect

The Conder South prospect is located south of Conder-1 which was drilled in 1988 and tested wet despite good oil shows in the Bookara Sandstone. The latter were at only 200m and likely to be biodegraded. Conder South is on a separate horst structure as mapped from the poor quality 2D seismic data. It is again small and extremely high risk on account of the shallowness of the target and the risk of lateral seal leakage.

### CONDER SOUTH PROSPECT

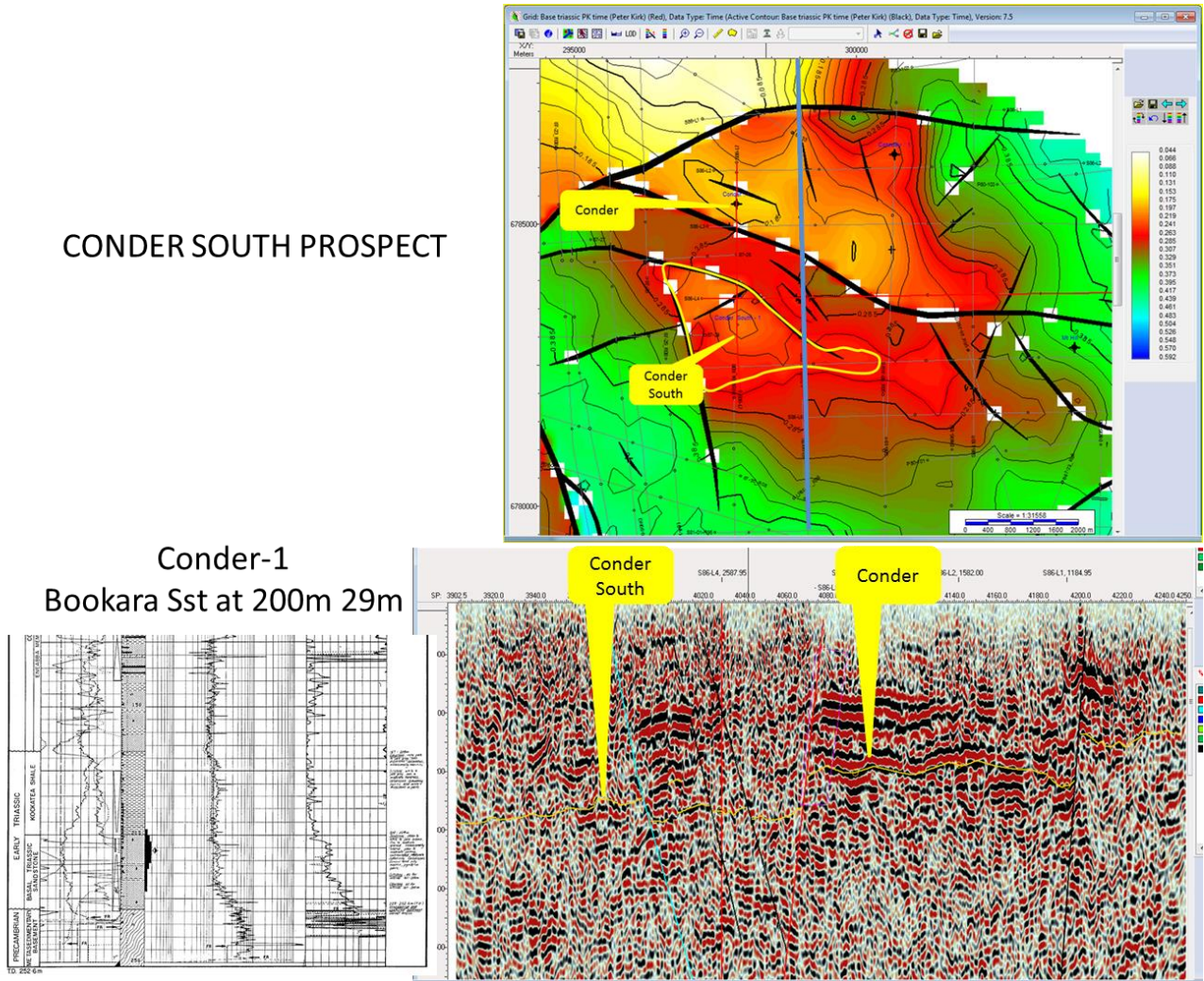


Figure 7-6: Conder South Prospect



## 7.6. EP437 Prospective Resources

As Pilot's internal assessment of prospective resources for the three prospects in EP437 is only preliminary at this stage, requiring further study, RISC has not considered the prospective resources for the purposes of this report.

## 7.1. Status of Committed Program

The EP437 permit was granted on the 6 June 2012 for a 5 year term but expires on the 27 November 2019 due to extensions. The five year permit work programme details are given in Table 7-1. The permit is currently in Year 2 with a commitment of G&G studies and will require a well to be drilled in 2017.

RISC has relied on government documentation of approvals and permit awards provided by Pilot to ascertain the permit status.

**Table 7-1: EP437 Permit Details and Work programme**

Permit	Operator	Interest	Status	Permit Expiry Date	Work Programme
EP437	Key Petroleum	Pilot 13.058% Key Pet 43.471% Rey Res 43.471%	Exploration Licence	27 November 2019	Year 1: Production test \$0.85M Year 2: G&G studies \$0.2 Year 3: 1 well \$1.5M Year 4: G&G studies \$0.1 Year 5: 1 well \$1.5M

## 7.2. Exploration Program Costs

Exploration costs are low in EP437. A well to a target depth of 800m can be drilled for US\$1-1.7 million according to Pilot.

## 8. Valuation

### 8.1. Methodology

The Pilot permits are all early stage exploration properties. RISC has therefore used comparable transactions, where they exist, and notional farm-in terms by a farminee into the assets to estimate a fair value under the requirements of the VALMIN code. Valuation using an Expected Monetary Value (EMV) approach is not considered relevant for these assets due to their low level of maturity.

The values of the permits have been determined at low, mid and high values. As the low and high values of the exploration assets portfolio are derived by the arithmetic addition of the individual asset low and high values, respectively, they represent the possible extremes of the exploration value envelop. While farminees into the individual permits could value the assets at either end of the value range assessed, it is unlikely that potential buyers of the exploration asset portfolio would value all of the assets at either all of the low or all of the high estimated extremes. Their own assessments of individual permits will span the low, mid or high outcomes based on factors including: their strategic objectives and region or geological basin focus; assessment of an asset's prospectivity and associated geological risks; the fiscal and regulatory framework applicable to the asset; accessibility of commercialisation routes, including markets and infrastructure, for each asset; equity interests, operator capability and joint venture partners in each asset. RISC has determined the low and high values of the portfolio of exploration assets at an estimated one standard deviation from the total mid value of the portfolio.

### 8.2. Transaction value

Pilot acquired their interests in the contiguous EP 416 and EP480 permits and in EP 437 through recent transactions which provide the most relevant analogue transactions with which to value these current interests.

In September 2015, Pilot executed an agreement to farm-in to Empire Oil & Gas (NL) permits EP 416 and 480. Under the terms of the agreement, Pilot paid A\$0.45 million on satisfaction of regulatory requirements which occurred in 2016. In consideration, Pilot earned a 60% interest in each of the permits and assumed operatorship.

### 8.3. Notional Farm-in terms

In our experience, farm-in terms typically attract promote factors of 1:1 to 3:1 with potentially a reimbursement of past costs and/or bonus payments. The promote factors refer to the share of a farmor's costs that a farmee might carry. A promote factor of 1:1 implies that the farmee will only pay for its acquired interest share of specified future costs; while a 2:1 promote indicates that the farmee will pay in addition to its acquired interest share of costs, an equal amount of the farmor's costs. The market value, therefore to the farmor, is the value of the share of its costs that are being carried by the farmee.

In June 2014, Rey Resources farmed-in, earning 43.47% by funding 86.94% of the Dunnart-2 well costs capped at A\$1.7 million implying a 2:1 promote. In light of current market conditions, RISC considers a 2:1 promote the high end of the permit value with a mid-range value based on a 1.5:1 promote. The low end of the value range stems from Pilot's November 2015 acquisition of Caracal's 13.058% interest for A\$15,000 cash. 20 million shares and 20 million options are not included in this low value.

## 8.4. Valuation summary

The Pilot Australian permits have been evaluated using the methods described in Section 3.2 and are summarised below:

**Table 8-1: Valuation Summary**

Exploration Assets	Equity Interest %	Gross Notional farm-in entry program US\$MM	Valuation (US\$MM)			Comments
			Low	Mid	High	
WA-507-P	80%	Seismic costs 3.8 Well cost 25 (+30%)	3.0	14.5	29.0	Low value based on 2:1 carry on seismic costs. Mid and High values based respectively on 1.5:1 and 2:1 carries on seismic and Year 6 well (US\$20 – 25 MM +30% contingency)
WA-503-P	80%	Seismic costs 1.55 (including farmin equity uplift)	0.6	1.2	13.2	Low and Mid values based respectively on 1.5:1 and 2:1 carries on seismic costs. High value based on 2:1 carry on seismic and 1 well (US\$15 MM)
EP416 & EP480	60%		0.3	0.3	0.3	February 2016 Transaction between Empire Oil & Gas and Pilot Energy (IHS Connect Database). A\$0.45MM subject to various approvals.
EP437	13.058%	1.6 (86.94%)	0.0	0.1	0.2	June-2014 farm-in by Rey Resources. Rey earned 43.47% by covering 86.94% of the costs of the Dunnart-2 well capped at A\$1.7MM (US\$1.6m) (IHS Connect Database). Mid and High values based respectively on 1.5:1 and 2:1 carries on the well cost  Nov-2015 purchase of Caracal 13.058% interest by Pilot for \$15,000 cash, 20MM Pilot Shares at 0.001cps and 20MM Pilot options with an exercise price of \$0.002
Total Pilot Permit Value			4.0	16.2	42.8	
<b>Pilot Early Stage Exploration Portfolio Valuation Range</b>			<b>9.7</b>	<b>16.2</b>	<b>22.7</b>	

## 9. Declarations

### 9.1. Qualifications

RISC is an independent oil and gas advisory firm. The RISC staff engaged in this assignment include qualified petroleum reserves and resources evaluators as specified in ASX listing rules, professionally qualified engineers, geoscientists and commercial analysts, each with many years of relevant experience and most have in excess of 20 years.

The preparation of this report has been supervised by Mr Geoffrey Barker, RISC Partner. He has over thirty years of global experience in the upstream hydrocarbon industry, with extensive expertise in the areas of asset valuation, business strategies, evaluation of conventional and non-conventional petroleum (coal seam gas and tight gas), due diligence assessment for mergers, acquisitions and project finance requirements and reserves assessment/certification and preparation of Independent Technical Specialist reports. Mr. Barker is a Past Chairman of the SPE WA Section, a past member of the SPE International's Oil and Gas Reserves Committee 2007-2009, and is a co-author of the Guidelines for Application of the Petroleum Resources Management System published by the SPE in November 2011 (Chapter 8.5 Coal Bed Methane). Mr Barker is a Member of the Society of Petroleum Engineers (SPE), and holds a BSc (Chemistry), Melbourne University, 1980 and a M.Eng.Sc (Pet Eng), Sydney University, 1989 and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules.

David Cliff, Head of Geoscience, prepared the majority of the report. David is a Petroleum Geologist with over 30 years of upstream experience, focused mainly on exploration in technical and management roles. He has worked for Australian and international companies, both large and small, from Woodside Petroleum to Bridge Oil. More recently David has held the position of Exploration Manager at Hardman Resources and Neon Energy giving him exposure to exploration in Africa and Southeast Asia respectively. He has also had experience as a resource stock analyst at BBY and held the role of Managing Director at Gas Link Global. David is a past President of PESA, a long-time member of AAPG and a graduate of the Australian Institute of Company Directors. David has a BSc in Geology from the University of Exeter, 1980.

Paul Carter, Geophysicist, also helped prepare this document. Paul has over 35 years of oil and gas exploration, appraisal and development experience. Prior to joining RISC, Paul was a founding member of Isis Petroleum Consultants. Paul has also held senior positions at Hudson Bay Oil, Minora Resources, WMC, Novus Petroleum Limited, Conoco Phillips and GSI, and has been an independent international consultant since 2000. Paul specialises in seismic interpretation and has worked on a wide range of tertiary basins in Australia, Southeast Asia, East and West Africa, Mongolia and South Asia. Paul has a Bachelor of Applied Science from Curtin University, 1973.

Simon Douse, Commercial Analyst, prepared the valuation for this document. Simon is a broadly experienced Commercial Consultant with experience in upstream economics and trading in the downstream energy sector. Simon's strengths include strategic evaluations, through market, industry and asset-specific analysis and supported by Simon's strong background in financial modelling and trading in the east coast Australian Gas and electricity markets. This, along with his experience on a multitude of commercial structures and fiscal regimes, allows Simon a track record of providing valuable insights to clients. Simon has a Master of Applied Finance from Macquarie University, 2014 and a BSc in Electro-Mechanical Engineering from the University of Cape Town, 2006.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Australia and London, UK. We have completed over 1500 assignments in 68 countries for nearly 500 clients. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration/Portfolio management;
- Field development studies and operations planning;
- Reserves assessment and certification, peer reviews;
- Gas market advice;
- Independent Expert/Expert Witness;
- Strategy and corporate planning.

## **9.2. VALMIN Code and ASIC Regulatory Guides**

This Report has been prepared by RISC. This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition (“The VALMIN Code”) as well as the Australian Securities and Investment Commission (ASIC) Regulatory Guides 111 and 112.

## **9.3. Petroleum Resources Management System**

In the preparation of this Report, RISC has complied with the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007 (PRMS).

## **9.4. Report to be presented in its entirety**

RISC has been advised by Pilot that this report will be presented in its entirety without summarisation.

## **9.5. Independence**

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

- RISC is independent with respect to Pilot and BDO Corporate Finance and confirms that there is no conflict of interest with any party involved in the assignment;
- Under the terms of engagement between RISC and Pilot for the provision of this report RISC will receive a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, RISC has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report;

- Neither RISC nor any of its personnel involved in the preparation of this report have any material interest in Pilot or in any of the properties described herein;
- RISC has not provided professional services to either Pilot in the past two years;
- RISC has not provided advice to either Pilot specifically in relation to the Proposed Transaction.

## 9.6. Limitations

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from Pilot as well as information in the public domain.

The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and key Pilot staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, we believe our review and conclusions are sound, but neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose.

Under the VALMIN Code 2005 Edition, Clause 67, RISC has acted as the Specialist in determining the status of the permit titles and has found that apart from permit EP416 which has currently expired (but has a very strong chance of being renewed) all the other titles have been properly assigned to Pilot and the commitments shown above are correct. RISC has relied on permit grant or renewal documents and variation approvals and change of ownership approvals from the various Government bodies to ascertain the permit status. These documents were supplied by Pilot and are the generally accepted forms of proof that the titles are in good standing and the ownership is verified. RISC has not made independent enquiries of the various Government bodies.

RISC has not audited the opening balances at the economic evaluation date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses.

We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

## 9.7. Consent

RISC has consented to this report, in the form and context in which it appears, being included in the Independent Expert's Report prepared by BDO Corporate Finance for Pilot. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.

This Report is authorised for release by Mr. Geoffrey Barker, RISC Partner dated 3 May 2016.

A handwritten signature in black ink, appearing to be "GB" followed by a long, wavy horizontal line.

**Geoffrey J Barker**  
Partner

## 10. List of terms

The following lists, along with a brief definition, abbreviated terms that are commonly used in the oil and gas industry and which may be used in this report.

Term	Definition
1P	Equivalent to Proved reserves or Proved in-place quantities, depending on the context.
1Q	1st Quarter
2P	The sum of Proved and Probable reserves or in-place quantities, depending on the context.
2Q	2nd Quarter
2D	Two Dimensional
3D	Three Dimensional
4D	Four Dimensional – time lapsed 3D in relation to seismic
3P	The sum of Proved, Probable and Possible Reserves or in-place quantities, depending on the context.
3Q	3rd Quarter
4Q	4th Quarter
AFE	Authority for Expenditure
Bbl	US Barrel
BBL/D	US Barrels per day
BCF	Billion (10 <sup>9</sup> ) cubic feet
BCM	Billion (10 <sup>9</sup> ) cubic meters
BFPD	Barrels of fluid per day
BOPD	Barrels of oil per day
BTU	British Thermal Units
BOEPD	US barrels of oil equivalent per day
BWPD	Barrels of water per day
°C	Degrees Celsius
Capex	Capital expenditure
CAPM	Capital asset pricing model
CGR	Condensate Gas Ratio – usually expressed as bbl/MMscf
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
CO <sub>2</sub>	Carbon dioxide
CP	Centipoise (measure of viscosity)
CPI	Consumer Price Index
DEG	Degrees
DHI	Direct hydrocarbon indicator
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
DST	Drill stem test
E&P	Exploration and Production
EG	Gas expansion factor. Gas volume at standard (surface) conditions / gas volume at reservoir conditions (pressure & temperature)



Term	Definition
EIA	US Energy Information Administration
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
ESP	Electric submersible pump
EUR	Economic ultimate recovery
Expectation	The mean of a probability distribution
F	Degrees Fahrenheit
FDP	Field Development Plan
FEED	Front End Engineering and design
FID	Final investment decision
FM	Formation
FPSO	Floating Production Storage and offtake unit
FWL	Free Water Level
FVF	Formation volume factor
GIIP	Gas Initially In Place
GJ	Giga (10 <sup>9</sup> ) joules
GOC	Gas-oil contact
GOR	Gas oil ratio
GPOS	Probability of Geological success
GRV	Gross rock volume
GSA	Gas sales agreement
GTL	Gas To Liquid(s)
GWC	Gas water contact
H <sub>2</sub> S	Hydrogen sulphide
HHV	Higher heating value
ID	Internal diameter
IRR	Internal Rate of Return is the discount rate that results in the NPV being equal to zero.
JV(P)	Joint Venture (Partners)
Kh	Horizontal permeability
km <sup>2</sup>	Square kilometres
K <sub>rw</sub>	Relative permeability to water
K <sub>v</sub>	Vertical permeability
kPa	Kilo (thousand) Pascals (measurement of pressure)
Mstb/d	Thousand Stock tank barrels per day
LIBOR	London inter-bank offered rate
LNG	Liquefied Natural Gas
LTBR	Long-Term Bond Rate
m	Metres
MDT	Modular dynamic (formation) tester
mD	Millidarcies (permeability)
MJ	Mega (10 <sup>6</sup> ) Joules
MMbbl	Million US barrels

Term	Definition
MMscf(d)	Million standard cubic feet (per day)
MMstb	Million US stock tank barrels
MOD	Money of the Day (nominal dollars) as opposed to money in real terms
MOU	Memorandum of Understanding
Mscf	Thousand standard cubic feet
Mstb	Thousand US stock tank barrels
MPa	Mega (10 <sup>6</sup> ) pascal (measurement of pressure)
mss	Metres subsea
MSV	Mean Success Volume
mTVDss	Metres true vertical depth subsea
MW	Megawatt
NPV	Net Present Value (of a series of cash flows)
NTG	Net to Gross (ratio)
ODT	Oil down to
OGIP	Original Gas In Place
OOIP	Original Oil in Place
Opex	Operating expenditure
OWC	Oil-water contact
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively.
PBU	Pressure build-up
PJ	Peta (10 <sup>15</sup> ) Joules
POS	Probability of Success
Possible Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Probable Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS.
Proved Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Often referred to as 1P, also as "Proven".
PSC	Production Sharing Contract

Term	Definition
PSDM	Pre-stack depth migration
PSTM	Pre-stack time migration
psia	Pounds per square inch pressure absolute
p.u.	Porosity unit e.g. porosity of 20% +/- 2 p.u. equals a porosity range of 18% to 22%
PVT	Pressure, volume & temperature
QA/QC	Quality Assurance/ Control
rb/stb	Reservoir barrels per stock tank barrel under standard conditions
RFT	Repeat Formation Test
Real Terms (RT)	Real Terms (in the reference date dollars) as opposed to Nominal Terms of Money of the Day
Reserves	RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.
RT	Measured from Rotary Table or Real Terms, depending on context
SC	Service Contract
scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
Sg	Gas saturation
Sgr	Residual gas saturation
SRD	Seismic reference datum lake level
SPE	Society of Petroleum Engineers
SPE-PRMS	Petroleum Resources Management System, approved by the Board of the SPE March 2007 and endorsed by the Boards of Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council and Society of Petroleum Evaluation Engineers.
s.u.	Fluid saturation unit. e.g. saturation of 80% +/- 10 s.u. equals a saturation range of 70% to 90%
stb	Stock tank barrels
STOIIP	Stock Tank Oil Initially In Place
Sw	Water saturation
TCM	Technical committee meeting
Tcf	Trillion (10 <sup>12</sup> ) cubic feet
TJ	Tera (10 <sup>12</sup> ) Joules
TLP	Tension Leg Platform
TRSSV	Tubing retrievable subsurface safety valve
TVD	True vertical depth
US\$	United States dollar
US\$ million	Million United States dollars
WACC	Weighted average cost of capital
WHFP	Well Head Flowing Pressure
Working interest	A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.
WPC	World Petroleum Council
WTI	West Texas Intermediate Crude Oil