

Announcement to ASX

19 December, 2016

DRILLING OF WYE KNOT-1 EXPLORATION WELL

Pilot Energy Ltd (the **Company**, ASX: PGY) is pleased to advise that the EP437 Joint Venture has approved the work program and budget for drilling of the Wye Knot-1 exploration well.

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

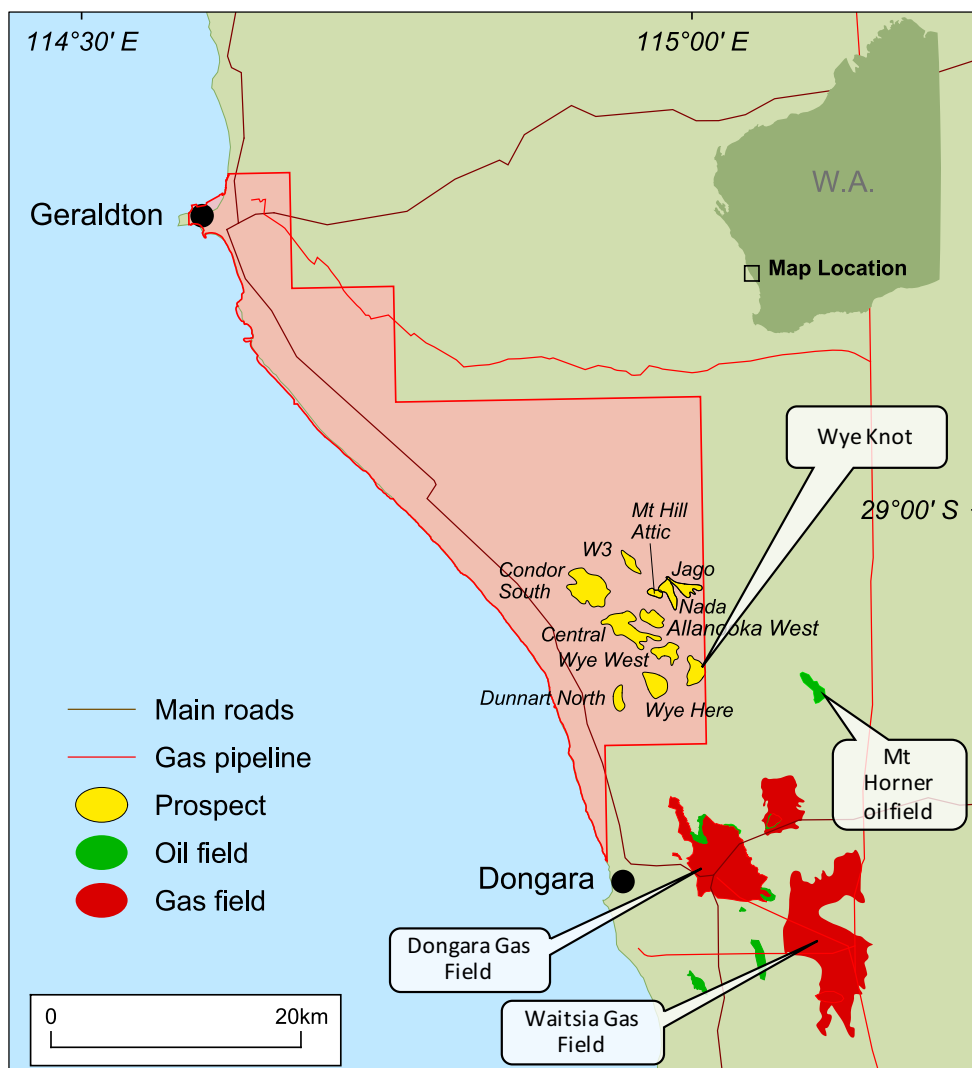


Figure: EP437 Location Map

The Wye Knot oil prospect is located down-dip from the Wye-1 gas discovery, drilled in 1996 at the crest of a four-way-dip-closed structure that benefits from additional closure via faulting to the northeast and northwest.

Wye-1 tested gas at commercial rates from two good quality reservoirs, with the Bookara and the Arranoo sandstone reservoirs flowing 4.4MMscf per day and 2.5 MMscf per day respectively. Neither of the reservoirs exhibited a water leg and both exhibited good, live oil shows during drilling. The presence of oil shows indicates that the reservoirs were originally oil-filled at the Wye-1 location,

with the oil being displaced to a down-dip oil rim by subsequent gas migration in to the crest of the structure. This dual-charge model is evident elsewhere within the north Perth Basin, including at the nearby Dongara gas field, where the Dongara-8 well produced at an initial rate of 800 barrels of oil per day from an oil rim.

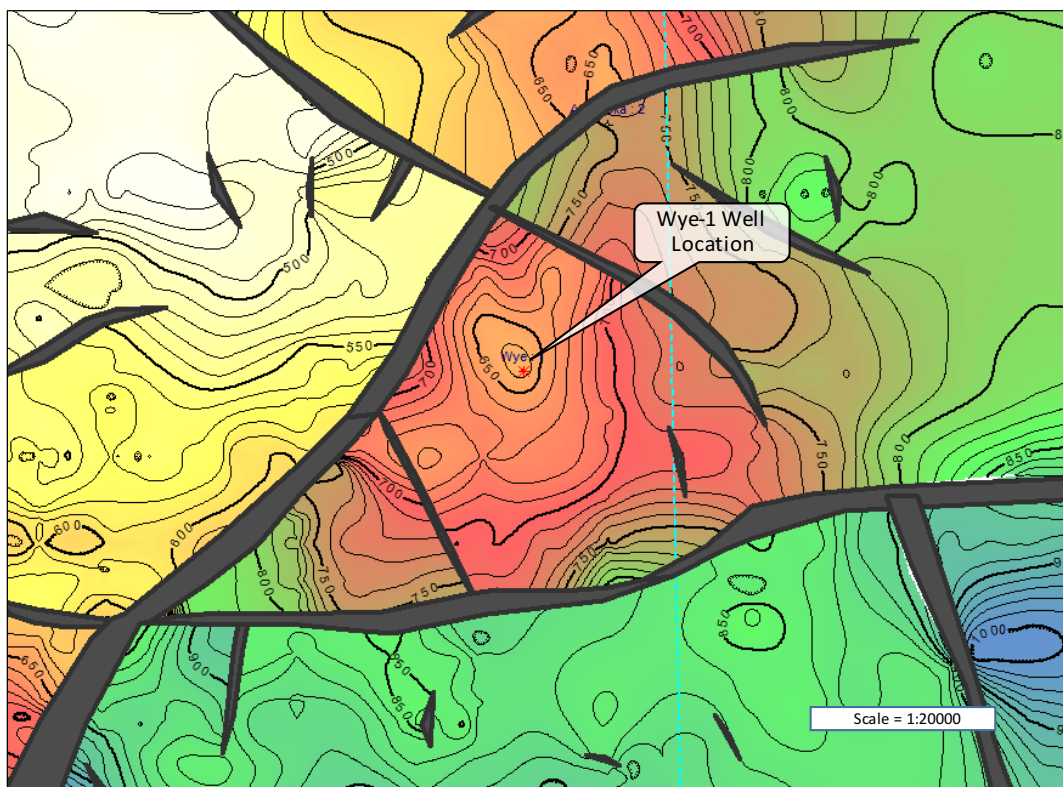


Figure: Wye Knot Prospect Map

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

The Operator's assessment of the prospective resources targeted by Wye Knot-1 is as follows:

Reservoir	Gross (100%) MMBbls			Net to Pilot (13%) MMBbls		
	Low	Best	High	Low	Best	High
Triassic (Bookara & Arranoo)	0.2	1.4	6.1	0.03	0.18	0.79

Notes:

1. Prospective Resources are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a chance of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.
2. The estimates of Prospective Resources included in this announcement have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE). The PRMS defines prospective resources as those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.
3. The prospective resources were estimated by mapping the extent of the prospect using the seismic data and applying ranges of volumetric parameters based on regional data, including recovery efficiencies. The prospective resources were calculated deterministically and the two reservoir targets were arithmetically summed in order to provide estimates for the prospect as a whole.
4. Gross Prospective Resources are 100% of the on-block volumes estimated to be recoverable from the prospect in the event that a discovery is made and subsequently developed.
5. The volumes reported are "Unrisked" in the sense that the Geological Chance of Success (GCoS) factor has not been applied to the designated volumes. The Operator estimates the GCoS for the prospect at 30%.

In the event of exploration success, the discovery could be commercialised rapidly and at low cost. Pilot Energy estimates the Net Present Value of a commercial discovery at between US\$15 and US\$20 per barrel, at current oil prices and depending on the size of the discovered resource.

Importantly, success at Wye Knot-1 will de-risk other prospects within EP437, including Becos, Updip Wattle Grove, and Ganay.

Operator Key Petroleum will now commence a formal tendering process for the rig and long lead items. Availability of a suitable rig, and various regulatory approvals will determine the schedule for drilling. The Operator will provide an estimated date for spudding in due course. In the meantime, the Joint Venture will consider the precise well location for Wye Knot-1, which will be sufficiently down-dip from the Wye-1 discovery well to maximise the chance of intersecting an oil column that demonstrates a commercial resource.

Working interests in EP437 are as follows:

Key Petroleum Ltd (ASX: KEY)	43.471% (Operator)
Rey Resources Ltd (ASX: REY)	43.471%
Pilot Energy Ltd	13.058%

Competent Person Statement: This announcement contains information on conventional petroleum resources which is based on and fairly represents information and supporting documentation reviewed by Mr JL Kane Marshall, an employee of Key Petroleum Limited. Mr Marshall is a Practising Petroleum Engineer and Petroleum Geologist, and holds a BSc (Geology), a BCom (Inv & Corp Fin), and a Masters in Petroleum Engineering. He is a member of the Society of Petroleum Engineers (SPE), American Associate of Petroleum Geologists (AAPG), Petroleum Exploration Society of Great Britain (PESGB), Formation Evaluation Society of Australia (FESAus) and Society of Petrophysicists and Well Log Analysts (SPWLA). He has over 15 years of relevant experience, and consents to the inclusion of the information in this document.

Enquiries

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About Pilot Energy: Pilot Energy Ltd is an emerging junior oil and gas exploration company that is implementing a low-cost, counter-cyclical strategy to develop a portfolio of high quality oil and gas exploration assets. The Company's aggressive new ventures program has rapidly resulted in acquisition of material working interests in the WA-481-P, WA-507-P, WA-503-P and EP416/480 exploration permits, located offshore and onshore Western Australia, in addition to a minor working interest in the EP437 permit. Key to Pilot Energy's strategy is minimisation of project entry cost and work commitments, while allowing sufficient time to add value through desktop studies prior to seeking farming partners to fund seismic and/or drilling. Pilot Energy works closely with industry partners such as seismic contractors in order to develop creative pricing models for services that help to reduce the Company's upfront cash investment.