

Pilot Energy Ltd
ABN 86 115229 984
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Nedlands WA 6009 Australia
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Announcement to ASX

27 January 2017

Dispatch of 2016 Annual Report and Notice of AGM

Attached is a copy of the Pilot Energy Limited 2016 Annual Report together with the Notice of Annual General Meeting, Proxy Form and Explanatory Memorandum which have been dispatched to shareholders today.

A copy of the Annual Report and Notice of AGM will also be available on our website www.pilotenergy.com.au

For and on behalf of the Board

Enquiries

Iain Smith, Managing Director, Tel: +61 412 638 019, email: ismith@pilotenergy.com.au

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.



PILOT ENERGY LIMITED

ABN 86 115 229 984

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting

Tuesday 28 February 2017

Time of Meeting

10:00 am (WST)

Place of Meeting

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

PILOT ENERGY LIMITED

ABN 86 115 229 984

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of Pilot Energy Limited ("**Company**") will be held at 10:00 am (WST) on Tuesday, 28 February 2017, at Level 2, 55 Carrington Street, Nedlands, Western Australia.

In order to determine voting entitlements, the register of Shareholders will be closed at 4:00pm (WST) on Friday, 24 February 2017.

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.

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report for the Company for the financial year ended 30 September 2016 together with the declaration of the directors, the Directors' Report, the Remuneration Report and the Auditor's Report.

Resolution 1: Adoption of the Remuneration Report

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report contained within the Company's annual financial report for the financial year ended 30 September 2016."

Note 1: the vote on this resolution is advisory only and does not bind the Directors of the Company.

Note 2: If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director and CEO) must stand for re-election. Less than 25% of shareholder voted against the remuneration report at the 2015 Annual General Meeting.

Voting Prohibition Statement:

A vote on this Resolution 1 must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member,

(collectively, a "**Prohibited Voter**").

However, a Prohibited Voter may cast a vote on this Resolution 1 as a proxy if the vote is not cast on behalf of a person described above and either:

- (a) the Prohibited Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (b) the Prohibited Voter is the Chair and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Resolution 2: Re-Election of Director - Tung Leung (Benson) Wong

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That Mr Tung Leung (Benson) Wong, a Director, who having been appointed a director since the last AGM, retires in accordance with clause 36.2 of the Company’s constitution, ASX Listing Rule 14.4 and for all other purposes, and being eligible is re-elected as a Director.”

Resolution 3: Re-Election of Director - Hui Xiong (Wilson) Xue

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That Mr Hui Xiong (Wilson) Xue, a Director, who having been appointed a director since the last AGM, retires in accordance with clause 36.2 of the Company’s constitution, ASX Listing Rule 14.4 and for all other purposes, and being eligible is re-elected as a Director.”

Resolution 4: Approval of 10% Placement Capacity

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

“That, for the purpose of Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totalling up to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the issue of Equity Securities under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company will 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.

Important note: The proposed recipients of any Equity Securities under the 10% Placement Capacity are not as yet known or identified. In these circumstances (and in accordance with the note set out in ASX Listing Rule 14.11.1 relating to ASX Listing Rules 7.1 and 7.1A), for a person’s vote to be excluded, it must be known that that person will participate in the proposed issue. Where it is not known who will participate in the proposed issue (as is the case in respect of any Equity Securities issued under the 10% Placement Capacity), Shareholders must consider the proposal on the basis that they may or may not get a benefit and that it is possible that their holding will be diluted, and there is no reason to exclude their votes.

By Order of the Board

A handwritten signature in black ink, appearing to read 'D M McArthur', written in a cursive style.

D M McARTHUR
Company Secretary

Dated: 17 January 2017

ENTITLEMENT TO ATTEND AND VOTE

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 Annual General Meeting.

The Company’s Directors have determined that all Shares of the Company that are quoted on ASX at 4:00pm (WST) on Friday, 24 February 2017 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

VOTING IN PERSON

To vote in person, attend the Meeting at the time, date and place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- (a) each Shareholder has a right to appoint a proxy;
- (b) the proxy need not be a member of the Company; and
- (c) a Shareholder who is 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. If the member appoints two proxies and the appointment does not specify the proportion or number of the member’s votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

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, Mr 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

ABN 86 115 229 984

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 Annual General Meeting (“**Notice**”) of the Company.

The Directors of the Company (“**Directors**”) 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.

FINANCIAL STATEMENTS AND REPORTS

The business of the Annual General Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 September 2016, together with the declaration of the Directors, the Directors’ Report, the Remuneration Report and the Auditor’s Report.

A copy of the Company’s 2016 Annual Report is available on the Company’s ASX platform (ASX: PGY) and on the website www.pilotenergy.com.au. Alternatively, a hard copy will be made available upon request.

The Company’s auditor, BDO, will be present at the Annual General Meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the Auditor’s Report, the Company’s accounting policies, and the independence of the auditor.

In addition to taking questions at the Meeting, written questions to the Chair about the management of the Company, or to the Company’s auditor about:

- (a) the preparation and content of the auditor’s report;
- (b) the conduct of the audit;
- (c) accounting policies adopted by the Company in relation to the preparation of the Annual Financial Statements; and
- (d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 5 business days before the meeting date to the Company Secretary.

RESOLUTION 1: Adoption of Remuneration Report

General

The Corporations Act requires that at a listed company’s annual general meeting, a resolution that the Remuneration Report be adopted must be put to the Shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The Remuneration Report sets out the Company’s remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors’ Report contained in the annual financial report of the Company for a financial year.

The chair of the meeting must allow a reasonable opportunity for its shareholders to ask questions about or make comments on the Remuneration Report at the Annual General Meeting.

Voting consequences

Under changes to the Corporations Act which came into effect on 1 July 2011, a company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (Spill Resolution) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.

If more than 50% of votes cast are in favour of the Spill Resolution, the company must convene a shareholder meeting (Spill Meeting) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the most recent financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting.

Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.

Previous voting results

At the Company's previous annual general meeting, the votes cast against the remuneration report considered at that annual general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this Annual General Meeting.

Proxy restrictions

Shareholders appointing a proxy for Resolution 1 should note the following:

(a) ***If you appoint a member of the Key Management Personnel (other than the Chair) as your proxy***

If you elect to appoint a member of the Key Management Personnel (other than the Chair) whose remuneration details are included in the Remuneration Report, or a Closely Related Party of that member, ***you must direct the proxy how they are to vote.*** Undirected proxies granted to these persons will not be voted and will not be counted in calculating the required majority if a poll is called on this Resolution.

(b) ***If you appoint the Chair as your proxy***

If you elect to appoint the Chair where he/ she is also a member of the Key Management Personnel whose remunerations details are included in the Remuneration Report, or a Closely Related Party of such a member, ***you must direct the Chair how they are to vote.*** Undirected proxies granted to these persons will be voted in favour of all Resolutions.

(c) ***If you appoint any other person as your proxy***

You ***do not*** need to direct your proxy how to vote, and you ***do not*** need to tick any further acknowledgement on the Proxy Form. Undirected proxies granted to these persons will be voted at their discretion.

RESOLUTIONS 2 and 3: Re-Election of Directors

ASX Listing Rule 14.4 provides that a director elected since the last AGM of the Company must retire and seek re-election at the next AGM of the Company.

Clause 36.2 of the Company's Constitution also requires that any Director appointed since the last AGM retire and seek re-election at the next AGM.

As Mr Xue was appointed to the Board on 27 June 2016, and Mr Wong was appointed to the Board on 29 April 2016, both appointments after the last AGM, both Directors retire and seek re-election.

Information about Mr Xue and Mr Wong is set out in the Company's 2016 Annual Report.

RESOLUTION 4: Approval of 10% Placement Capacity – Shares

General

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval at its annual general meeting to allow it to issue Equity Securities up to 10% of its issued capital over a period up to 12 months after the annual general meeting (**10% Placement Capacity**).

The Company is an Eligible Entity.

If Shareholders approve Resolution 4, the number of Equity Securities the Eligible Entity may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out below).

The effect of Resolution 4 will be to allow the Directors to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the Meeting, without subsequent Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 4 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 4 for it to be passed.

ASX Listing Rule 7.1A

ASX Listing Rule 7.1A came into effect on 1 August 2012 and enables an Eligible Entity to seek shareholder approval at its annual general meeting to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

- (a) is not included in the S&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

The Company is an Eligible Entity as it is not included in the S&P/ASX 300 Index and has a current market capitalisation of approximately \$2.94 million.

Any Equity Securities issued must be in the same class as an existing class of quoted Equity Securities. The Company currently has two classes of quoted Equity Securities on issue, being the Shares (ASX Code PGY) and the Options (ASX: PGYO)

The exact number of Equity Securities that the Company may issue under an approval under Listing Rule 7.1A will be calculated according to the following formula:

$$(A \times B) - C$$

Where:

- A is the number of Shares on issue 12 months before the date of issue or agreement:
 - (i) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;
 - (ii) plus the number of partly paid shares that became fully paid in the previous 12 months;
 - (iii) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under Listing Rules 7.1 and 7.4.; and
 - (iv) less the number of Shares cancelled in the previous 12 months.
- B is 10%.
- C is the number of Equity Securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Ordinary Securities under ASX Listing Rule 7.1 or 7.4.

Technical information required by ASX Listing Rule 7.1A

Pursuant to and in accordance with ASX Listing Rule 7.3A, the information below is provided in relation to this Resolution 4:

(a) **Minimum Price**

The minimum price at which the Equity Securities may be issued is 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 ASX trading days of the date above, the date on which the Equity Securities are issued.

(b) **Date of Issue**

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

- (i) 12 months after the date of this Meeting; and
- (ii) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking).

(c) **Risk of voting dilution**

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 4 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated on the basis of the current market price of Shares and the current number of Equity Securities on issue as at the date of this Notice.

The table also shows the voting dilution impact where the number of Shares on issue (variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

		<u>DILUTION</u>		
Variable “A”		\$0.0005 50% decrease in Issue Price	\$0.001 Issue price	\$0.002 100% Increase in Issue Price
Current Variable A	10% Voting Dilution			
2,938,816,834 Shares		293,881,683 Shares	293,881,683 Shares	293,881,683 Shares
	Funds Raised	\$ 146,941	\$ 293,881	\$ 587,763
50% Increase In Current Variable A	10% Voting Dilution			
4,408,225,251 Shares		440,822,525 Shares	440,822,525 Shares	440,822,525 Shares
	Funds Raised	\$ 220,411	\$ 440,822	\$ 881,645
100% Increase In Current Variable A	10% Voting Dilution			
5,877,633,668 Shares		587,763,366 Shares	587,763,366 Shares	587,763,366 Shares
	Funds Raised	\$ 293,881	\$ 587,763	\$ 1,175,526

* The number of Shares on issue (variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

- The current shares on issue are the Shares on issue as at 13 January 2017.
- No options are exercised into Shares before the date of issue of the Equity Securities.
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. That is why the voting dilution is shown in each example as 10%.
- The issue price set out above is the closing price of the Shares on the ASX on 13 January 2017.
- The Company issues the maximum possible number of Equity Securities under the 10% Placement Capacity.
- The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.

(g) The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.

(h) This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.

Shareholders should note that there is a risk that:

(i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and

(ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

(d) **Purpose of Issue under 10% Placement Capacity**

The Company may issue Equity Securities under the 10% Placement Capacity for the following purposes:

(i) as cash consideration in which case the Company may use funds raised for the acquisition of new resources, assets and investments (including expenses associated with such an acquisition), continued exploration expenditure on the Company's current assets and general working capital; or

(ii) as non-cash consideration for the acquisition of new resources, assets and investments in which circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

(e) **Allocation under the 10% Placement Capacity**

The Company's allocation policy for the issue of Equity Securities under the 10% Placement Capacity will be dependent on the prevailing market conditions at the time of the proposed placement(s).

The recipients of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the recipients of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the recipients at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

(i) the purpose of the issue;

(ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;

(iii) the effect of the issue of the Equity Securities on the control of the Company;

(iii) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;

(v) prevailing market conditions; and

(vi) advice from corporate, financial and broking advisers (if applicable).

Further, if the Company is successful in acquiring new resources, assets or investments, it is likely that the recipients under the 10% Placement Capacity will be vendors of the new resources, assets or investments.

(f) **Previous Approval under ASX Listing Rule 7.1A**

The Company obtained approval under Listing Rule 7.1A on 24 February 2016. The Company has not issued any Equity Securities pursuant to Listing Rule 7.1A in the 12 months preceding the date of the Annual General Meeting.

As the Company has previously sought shareholder approval for the additional placement capacity under Listing Rule 7.1A, the following information is provided in relation to all issues of equity securities in the 12 months prior to the date of the Annual General Meeting, pursuant to the requirements of Listing Rule 7.3A6(a) and 7.3A6(b):

A total of 1,333,340,000 ordinary shares have been issued representing 83% of the equity securities on issue at the commencement of the 12 month period preceding the date of the Annual General Meeting.

Date of Issue:	27/06/16
Number issued:	933,340,000
Class:	Fully paid ordinary
Terms:	Placement
Name of applicants:	Sophisticated investors
Price:	0.003 cents per share
Premium to market:	50%
Total cash received:	\$2,800,000
Intended use of cash:	To meet obligations and work commitments on the Company's oil and gas assets, to consider further acquisitions in the oil and gas sector and for working capital.

Date of Issue:	26/04/16
Number issued:	400,000,000
Class:	Fully paid ordinary
Terms:	Placement
Name of applicants:	Sophisticated investors
Price:	0.002 cents per share
Discount to market:	Nil
Total cash received:	\$800,000
Intended use of cash	Working capital purposes.

Voting Exclusion

A voting exclusion statement is included in this Notice. As at the date of this Notice, the Company has not invited any existing Shareholder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. Therefore, no existing Shareholders will be excluded from voting on Resolution 4.

GLOSSARY

10% Placement Capacity has the meaning given in Resolution 4 of the Explanatory Statement.

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

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 -ABN 86 115 229 984

Directors means the current directors of the Company.

Eligible Entity means an entity that, at the date of the relevant general meeting:

- (a) is not included in the S&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

Equity Securities includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

Explanatory Statement means the explanatory statement accompanying the 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 Annual General Meeting** means this notice of Annual General Meeting including the Explanatory Statement and the Proxy Form.

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

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 Annual 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; andFurther 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 Annual 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 Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual 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 Annual 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 david.mcarthur@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.

CERTIFICATE OF APPOINTMENT OF CORPORATE REPRESENTATIVE

Shareholder Details

This is to certify that by a resolution of the directors of:

..... (Company),
Insert name of Shareholder Company

the Company has appointed:

.....,
Insert name of corporate representative

in accordance with the provisions of section 250D of the Corporations Act 2001, to act as the body corporate representative of that Company at an Annual General Meeting of the members of Pilot Energy Limited to be held on Tuesday, 28 February 2017 commencing at 10.00 am (WST) and at any adjournments of that general meeting.

DATED

Please sign here

Executed by the Company)
in accordance with its constituent documents)
)

.....
Signed by authorised representative

.....
Signed by authorised representative

.....
Name of authorised representative (print)

.....
Name of authorised representative (print)

.....
Position of authorised representative (print)

.....
Position of authorised representative (print)

Instructions for Completion

- Insert name of appointing Shareholder Company and the name or position of the appointee corporate representative (eg “John Smith” or “each director of the Company”).
- Execute the Certificate following the procedure required by your Constitution or other constituent documents.
- Print the name and position (eg director) of each authorised company officer who signs this Certificate on behalf of the Company.
- Insert the date of execution where indicated.
- Prior to the Meeting, send or deliver the Certificate to the registered office of Pilot Energy Limited at Level 2, 55 Carrington Street, Nedlands WA 6009 or fax the Certificate to the registered office at +61 8 9389 8327

PROXY FORM

APPOINTMENT OF PROXY PILOT ENERGY LIMITED ABN 86 115 229 984

ANNUAL GENERAL MEETING

I/We

Address

Appoint

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

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

OR

☐

the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit, at the Annual General Meeting to be held at 10.00 am (WST) on Tuesday, 28 February 2017 at Level 2, 55 Carrington Street, Nedlands, Western Australia, and at any adjournment of that meeting.

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 Annual General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 - Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 - Re-Election of Director - Tung Leung (Benson) Wong	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 - Re-Election of Director - Hui Xiong (Wilson) Xue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 - Approval of 10% placement capacity	<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

Sole Director/Company Secretary

Member 2

Director

Member 3

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____ **Date:** _____



PILOT ENERGY LIMITED

ABN 86 115 229 984

ANNUAL FINANCIAL REPORT

For the year ended 30 September 2016

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CORPORATE DIRECTORY

Directors

Mr Gavin Harper
Mr Iain Smith
Mr Benson Wong
Mr Wilson Xue

Secretary

Mr David McArthur

Registered and Principal Office

Level 2, 55 Carrington Street
Nedlands WA 6009

Telephone: +61 8 9423 3200
Facsimile: +61 8 9389 8327

Postal Address

PO Box 985
Nedlands WA 6909

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

Bankers

ANZ Banking Group Limited
Level 6, 77 St Georges Terrace
Perth WA 6000

Share Registry

Computershare Investor Services Pty Limited
Level 11, 172 St George's Terrace
Perth WA 6000

ASX Code

Shares: PGY

Legal Form of Entity

Public Company

Country of Incorporation and Domicile

Australia

CHAIRMAN'S REPORT

Dear Shareholder,

The past year been quite transformational for Pilot Energy, as your company continued to pursue its strategy of acquiring quality exploration assets at minimal cost, in advance of the forthcoming recovery in the upstream petroleum sector. We have brought four new exploration permits into the company, become the largest net acreage holder within the Perth Basin, and continued to prove up a very significant portfolio of prospective resources.

This letter would not be complete without commentary on prevailing market conditions, with investor sentiment towards the energy sector having remained negative for much of the past twelve months. Your company has allocated funds prudently as we work towards maturing our various prospects to drill-ready status, and continues to minimise corporate costs wherever possible.

While many of our peer companies have struggled to attract investor interest, Pilot Energy was able to attract a cornerstone investment group, who invested \$3.6 million at a significant premium to the then-prevailing share price. I believe this investment is a resounding endorsement of the company, its management and its assets, and I am pleased to be working with new fellow directors Messrs Benson Wong and Wilson Xue as we continue to build Pilot Energy in to a leading Australian junior E&P company.

I believe that Pilot Energy is distinct from many of our peer companies, due to our focus on conventional exploration, the diversity of our portfolio, our opportunistic and commercial approach, our low work commitments and our low corporate overheads. Your company is funded to progress its projects and now holds a diverse asset portfolio that offers shareholders exposure to onshore and offshore exploration, for both oil and gas. We will continue to search for additional high potential upstream assets that are compatible with our existing portfolio, our strategy, and our capability.

While market conditions have presented challenges for all in our industry, those same market conditions have presented a rare opportunity to acquire high-potential assets with minimal investment; an opportunity that your company has keenly and successfully pursued.

The recent increase in oil price suggests that the "green shoots" of an industry recovery are finally appearing. Investor sentiment towards the upstream petroleum sector is improving. Having diligently laid the groundwork, over the past two years, to build a leading Australian junior E&P company, I believe your company is now extremely well positioned to benefit substantially from the next upturn in the industry cycle.

I would like to express my appreciation to Managing Director, Iain Smith and the other Pilot Energy team members for their hard work during the past year, and to all shareholders for your continued support.

Yours faithfully,



Gavin Harper
Chairman

PILOT ENERGY LIMITED REVIEW OF OPERATIONS

For the year ended 30 September 2016

REVIEW OF OPERATIONS

HIGHLIGHTS

- Two new acquisitions; Pilot Energy now largest net acreage holder in Perth Basin
- Introduction of new cornerstone investor group, raising \$3.6 million
- Very favourable independent valuation of Pilot Energy and portfolio
- Very significant prospective resources independently confirmed in three projects
- Resolution of all legacy issues relating to Alaskan project; received US\$500,000 settlement

Overview

Pilot Energy Limited is listed on the Australian Securities Exchange (ASX: PGY) and has approximately 3 billion shares on issue. The Company has one operational segment, being the exploration, evaluation and development of oil and gas interests.

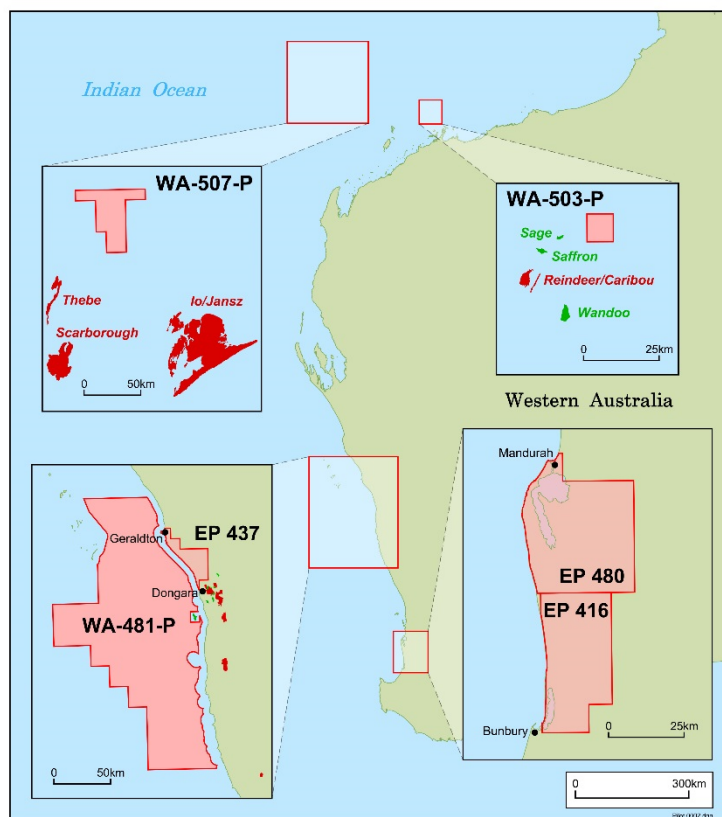
Company Strategy

The Company's strategy is to acquire and develop a diverse portfolio of high quality conventional petroleum exploration assets, at low cost and with low commitments on attractive and manageable commercial terms, with the goal of becoming a leading Australian junior exploration and production company.

In general the Company seeks to acquire large, operated interests in its projects; large in order to provide sufficient equity to farmout to third parties, and as Operator in order to maintain control over project cost and timing.

By developing a diverse and balanced portfolio of projects, Pilot Energy provides investors with exposure to significant upside from a number of conventional petroleum plays - onshore and offshore, oil and gas. This distinguishes Pilot Energy from many of its peer companies, which rely on perhaps only one or two projects; often unconventional in nature.

Having successfully executed an aggressive new ventures strategy over the past two years, the Company's focus is now shifting towards developing the portfolio in order to procure independent validation of each projects' prospective resources. To date this has been achieved for WA-507-P, WA-503-P and EP416/480, providing a solid basis upon which to market the projects to third parties with a view to farming out an interest in order to fund the forward exploration program.



PILOT ENERGY LIMITED

REVIEW OF OPERATIONS

For the year ended 30 September 2016

The Financial Year

Over the past twelve months the Company has continued to take advantage of prevailing market conditions to further expand its project portfolio, adding two new permits to the four that were acquired within the previous year; bringing the portfolio to a total of six exploration permits.

All of Pilot Energy's projects are situated within proven petroleum provinces and have been acquired at minimal cost; made possible by pursuing a counter-cyclical investment strategy at a time when much of the upstream industry has abandoned exploration and new ventures activity. Four of the permits are located within the Perth Basin, and with the most recent addition of WA-481-P to the portfolio, Pilot Energy is now the largest net acreage holder within that basin.

In March 2016 Pilot Energy executed a Share Subscription Agreement with a group of new investors to raise A\$3,600,020 before costs. The key terms of the SSA were as follows:

- An initial Tranche 1 investment of A\$800,000 to acquire 400,000,000 ordinary shares at 0.2 cents per share, representing a 34% premium to the Company's 30 day VWAP of 0.149 cents per share.
- A further Tranche 2 investment of A\$2,800,020 to acquire 933,340,000 ordinary shares at 0.3 cents per share (Tranche 2), representing a 100% premium to the Company's 30 day VWAP.

Pursuant to completion of the SSA, the Company implemented the following Board and management changes in order to position the Company for further growth:

- Mr Benson Wong was appointed as Executive Director and Chief Financial Officer.
- Mr Wilson Xue was appointed as a Non-Executive Director.
- Dr Xingjin Wang was engaged as an Advisor to the Board (Technical).
- Mr Conrad Todd and Mr Rory McGoldrick stepped down as directors, however remain key members of the team as Advisors to the Board (Technical and Commercial/Legal, respectively).

The funds raised via the cornerstone investment will be used to progress all current projects by fulfilling current work commitments, and to pursue further growth opportunities.

Independent Valuation

For the purposes of shareholder approval of the cornerstone investment, an Independent Expert's Report was prepared by BDO Corporate Finance (WA) Pty Ltd (**BDO**) in association with independent technical specialist RISC Operations Pty Ltd (**RISC**). The report valued a Pilot Energy share for the purposes of informing shareholders as to whether the Transaction is fair and reasonable to shareholders, in accordance with Section 611 of the Corporations Act.

BDO assessed 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 follows:

	Low Value Cents per share	Preferred Value Cents per share	High Value Cents per share
Value of Pilot Energy prior to the Transaction on a controlling basis	0.63	1.05	1.47
Value of Pilot Energy following completion of the Transaction on a minority basis	0.38	0.62	0.88

BDO noted that different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In its assessment of the value of Pilot Energy shares BDO chose to employ Net Asset Value, on a going concern basis, as the primary valuation methodology, and instructed RISC to provide an independent market valuation of the Company's exploration assets.

RISC determined that, on a portfolio basis, the range of values for the Company's exploration assets is between A\$12.80 million and A\$29.96 million, with a midpoint value of A\$21.38 million. The WA-481-P project was not included in this assessment, as it was acquired by the Company after completion of the Independent Expert's Report.

PILOT ENERGY LIMITED REVIEW OF OPERATIONS

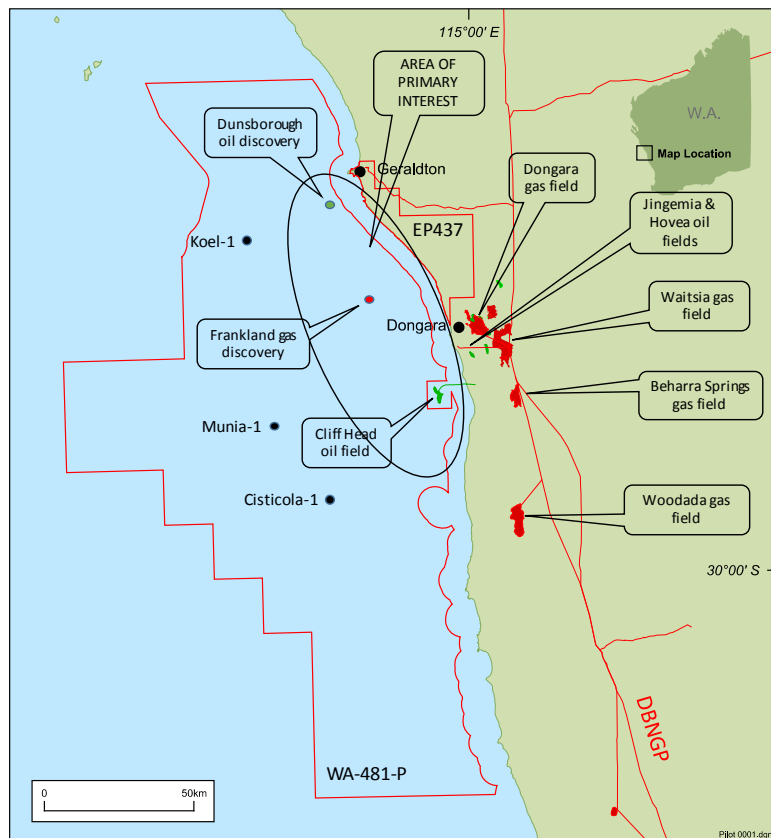
For the year ended 30 September 2016

Independent Valuation (continued)

BDO's full report, including the Independent Technical Specialist's Report completed by RISC, was included within the Notice of Meeting as issued to shareholders on 23 May, 2016.

Project Review

WA-481-P: High Impact Shallow Water Oil & Gas Exploration



As announced in July 2016, Pilot Energy acquired an operated 60% working interest in exploration permit WA-481-P. The Company acquired its interest for nil upfront consideration, with a 10% Net Profits Interest payable to the previous titleholder on any future hydrocarbon production from within the permit. The Company will also be assigned the previous titleholder's share of entitlements under the Petroleum Resource Rental Tax (PRRT) Assessment Act of 1987.

WA-481-P is located in shallow waters to the west of the onshore Dongara, Beharra Springs and Waitsia gas fields, and the Jingemina, Hovea and Cliff Head oil fields. The permit is very large (17,475 km²) and covers a substantial portion of the offshore extension of the North Perth basin.

The primary petroleum plays are oil and/or gas within the Dongara Sandstone and the Irwin River Coal Measures. Both oil and gas are proven within the permit, with the Frankland gas and the Dunsborough oil discoveries representing contingent resources. The Frankland-1 discovery well encountered an approximately 100 metre gas column, and is believed to host contingent resources that may warrant consideration for future development, particularly given the forecast strengthening of

West Australian domestic gas prices early in the coming years.

Structurally, the permit contains the north-south trending Turtle Dove Ridge to the west, where the previous joint venture drilled three exploration wells, all of which encountered oil and gas shows. The main hydrocarbon source "kitchen" extends through the centre of the block, with hydrocarbons thought to have migrated eastwards up to the Beagle Ridge in the east. This is where the Cliff Head, Frankland and Dunsborough fields are located.

Based upon its review of existing 2D and 3D seismic data, Pilot Energy has identified a number of leads and regards the north-eastern part of the permit as highly prospective for future discoveries in the range of 5 to 20 MMbbls oil, or 50 to 100 Bcf gas. Any future discoveries might be combined with the existing discovered resources within the permit, to form a "string of pearls" style development utilising existing infrastructure, such as the Cliff Head and Dongara facilities.

The WA-481-P permit entered Year 4 of the secondary term on 20 August 2016, which carries a work commitment to complete \$300,000 of geological and geophysical studies. The subsequent two years of the secondary term are discretionary, with each carrying an exploration well commitment.

Pilot Energy has completed its preliminary interpretation of the existing 2D and 3D seismic data over the primary area of interest, and is in the process of quantifying prospective resources for the purpose of prospect ranking. The Frankland and Dunsborough discoveries are also being studied in detail in order to quantify the contingent resources as the basis for a possible future application for retention leases over the accumulations.

PILOT ENERGY LIMITED

REVIEW OF OPERATIONS

For the year ended 30 September 2016

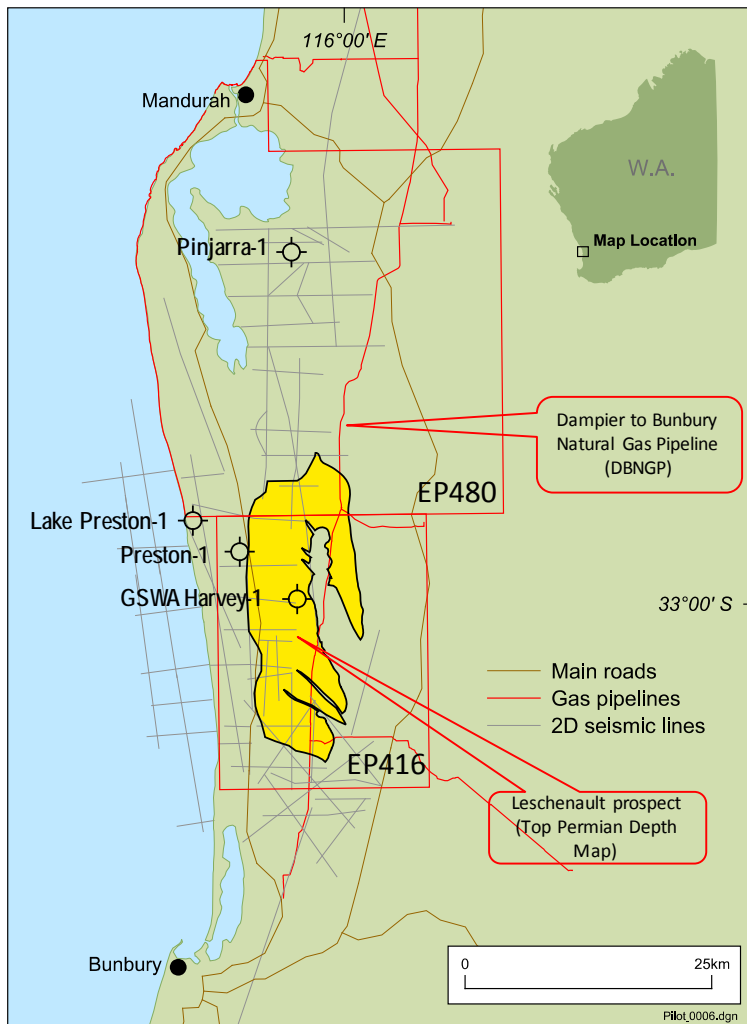
EP416 & EP480: High Impact, Low Cost Onshore Gas Exploration

Through its agreement with Empire Oil & Gas NL ("Empire"), Pilot Energy has earned a 60% working interest, as Operator, in exploration permits EP416 and EP480, situated within the southern part of the onshore Perth Basin.

The Perth Basin is a proven hydrocarbon province that has been subject to significant industry interest and activity since discovery of the Waitsia gas/condensate discovery, by AWE Limited. The basin is generally prospective for gas (with some oil and condensate) and is well served by gas distribution infrastructure, with the Dampier to Bunbury gas pipeline running almost the full extent of the basin (and running directly across EP416 and EP480). Importantly for Pilot Energy there is high demand for new sources of domestic gas within the area of EP416 and EP480, with industries such as minerals extraction and refining present nearby.

Exploration of the basin to date has been primarily focused to the north, with the southern portion having only been lightly explored. However, the limited drilling that has occurred in this part of the basin does confirm the presence of the key geological components required for a gas play.

EP416 and EP480 are large and contiguous permits located in the southern part of the onshore Perth Basin, on the coast of Western Australia. Existing 2D seismic data and airborne geophysical data confirm the presence of a very large structure across the permits, with up to 240 km² of structural closure mapped at two reservoir levels. The data also indicate the presence of large regional depocentres to the northeast and southeast of the structure, representing likely source "kitchens" for gas generated from the extensive and excellent quality Sue coal measures deposited across the region.



Pilot Energy's recent interpretation of available data indicates that the Leschenault structure is larger than previously thought, and as recently announced the prospective resources have been independently verified by RISC at up to 1.6 TCF gas.

The Leschenault prospect is a three-way dip structure that relies on closure to the west by a major bounding fault. The structure is well defined by 2D seismic data, and exhibits two structural culminations, both of which offer potential drilling locations for a vertical well to test the two conventional reservoir targets. The primary geological risk is one of cross-fault seal, i.e. whether the western bounding fault has sealing capacity to retain hydrocarbon gas migrating in to the structure. In order to address this risk a geochemical survey is planned in order to determine whether gas anomalies are evident.

The aim of the survey is to identify anomalies due to micro-seepage of hydrocarbon components from depth, that are broadly conformable to the Leschenault area of structural closure; indicating that one or both of the reservoir targets are gas-bearing. The survey will also focus on the location of the bounding fault, to determine whether macro-seepage of gas is occurring through the fault system, to surface.

PILOT ENERGY LIMITED

REVIEW OF OPERATIONS

For the year ended 30 September 2016

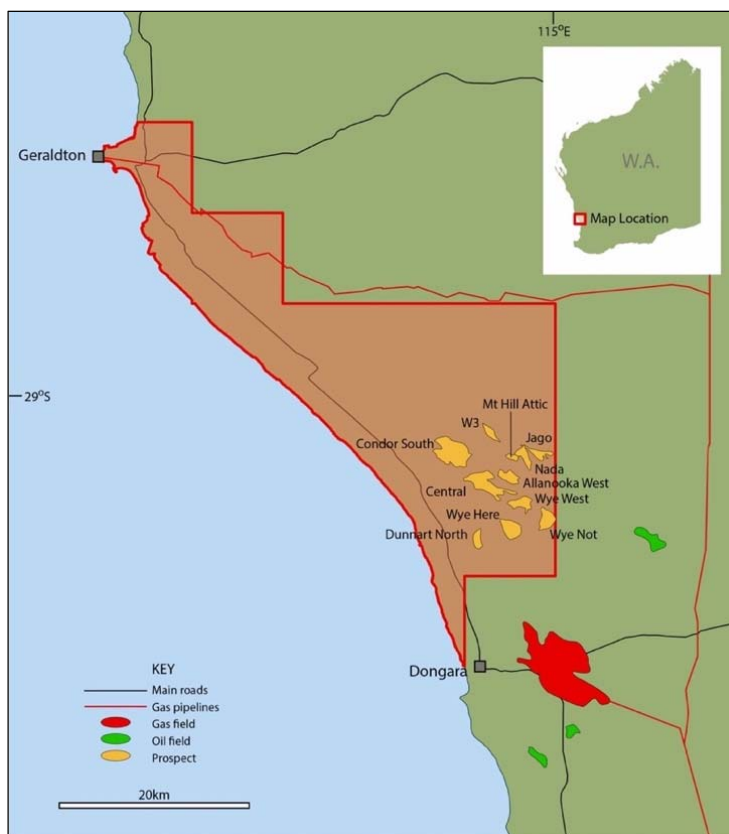
EP437 Exploration Permit: (13.058%)

EP437 is situated on the west of the northern onshore Perth Basin, between the towns of Geraldton and Dongara; some 10km to the north of the large Dongara gas field and Jingemba/Hovea oil fields, and 20km to the north of the Cliff Head oilfield. A number of wells have been drilled to date, the results of which confirm a working petroleum system within the permit.

Operator Key Petroleum has recently completed petrophysical interpretation and prospect ranking, and has presented budgets for long lead items and drilling of the Wye Knot prospect, located to the east of the permit. The precise timing of this Year 3 commitment well is subject to commercial discussions between the joint venture partners, and to discussion with various stakeholders, including landowners.

The Wye Knot oil prospect is located down-dip from the Wye-1 well (1996). Wye-1 tested gas from two reservoirs, with the Bookara and the Arranoo sandstone reservoirs flowing 4.4MMscf/day and 2.5 MMscf/day respectively. Neither of these reservoirs exhibited a water leg, and both exhibited good, live oil shows during drilling. This suggests that the reservoirs may have originally been oil-filled at the Wye-1 location, with the oil being displaced to a down-dip oil rim by subsequent gas migration. This dual-charging model is in evidence elsewhere within the north Perth Basin, including at the nearby Dongara gas field.

The Wye Knot-1 well provides the Company with exposure to a low cost, near term drilling opportunity, that offers substantial upside in the success case.

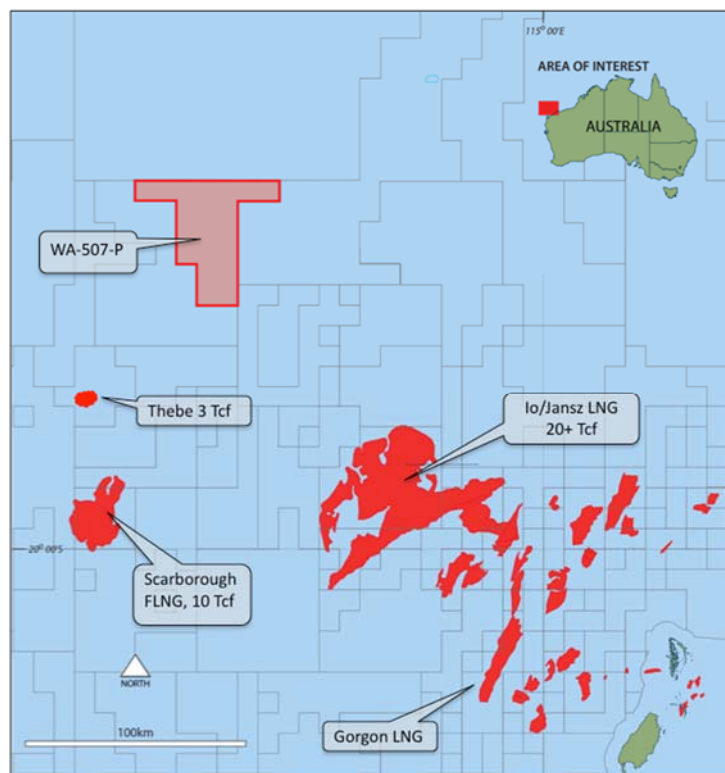


PILOT ENERGY LIMITED REVIEW OF OPERATIONS

For the year ended 30 September 2016

WA-507-P: Very High Impact Deep Water Oil & Gas Exploration

Pilot Energy holds an 80% working interest, as Operator, in exploration permit WA-507-P. The permit covers an area of 1,622km² over the Exmouth Plateau, some 300 km offshore Western Australia, in water depths of 1,000 to 1,500 metres.



The area is covered by an existing, high quality 3D seismic dataset, which has been licensed by the Company on favourable terms, and reveals three very large structural prospects, ranging from 60km² to 280km² in area. These prospects have the potential to contain very significant quantities of oil and/or gas in the Triassic Mungaroo reservoir, as evidenced by Gaffney Cline & Associates' (GCA) independent estimate of the permit's prospective resources.

While the area is widely known to be prospective for gas, regional well data strongly supports the case for an oil play within WA-507-P, with the Mungaroo source/reservoir interval having been deposited in an outboard, marine depositional environment over this part of the Exmouth Plateau. This marine environment has positive implications for extensive deposition of oil-prone source rocks and good quality sandstone reservoirs.

GCA's estimate of gross prospective resources for both the oil and gas cases are as follows (refer ASX announcements of 20 October 2015 and 25 February 2015, respectively).

Oil Case

Lead	Low (MMBbl)	Best (MMBbl)	High (MMBbl)
<i>Dalia Updip</i>	250	764	1,743
<i>Beta</i>	151	381	931
<i>Gamma</i>	203	436	926

Gas Case

Lead	Low (Bscf)	Best (Bscf)	High (Bscf)
<i>Dalia Updip</i>	1,644	4,734	9,639
<i>Beta</i>	1,010	2,436	5,674
<i>Gamma</i>	1,376	2,877	5,786

Historically the primary target of outer Northwest Shelf exploration has been gas, with a high success rate largely based on drilling prospects that exhibit Direct Hydrocarbon Indicators (DHIs) on seismic data. DHIs tend not to be so readily apparent in the case of oil, resulting in a large number of structures that remain undrilled but which may be oil bearing. This has not gone unnoticed by a number of large industry players, who are keenly pursuing the oil play in their own permits surrounding WA-507-P.

PILOT ENERGY LIMITED

REVIEW OF OPERATIONS

For the year ended 30 September 2016

WA-507-P: Very High Impact Deep Water Oil & Gas Exploration (continued)

In particular, Statoil acquired adjacent permit WA-506-P in late 2014, with a commitment to acquire 2,000km of new 2D seismic data and a 3,500km² 3D seismic survey. This is a firm commitment of \$50 million expenditure over the first 3 years, with drilling and seismic in years 4 to 6 potentially totalling a further \$215 million. This significant investment by Statoil reflects well on the prospectivity of this part of the Exmouth Plateau. A major 3D seismic program of some 13,350km² has recently been completed, funded by various industry participants as part of a “multi-client” survey and covering the permits held by Statoil, Shell and Eni/Octanex.

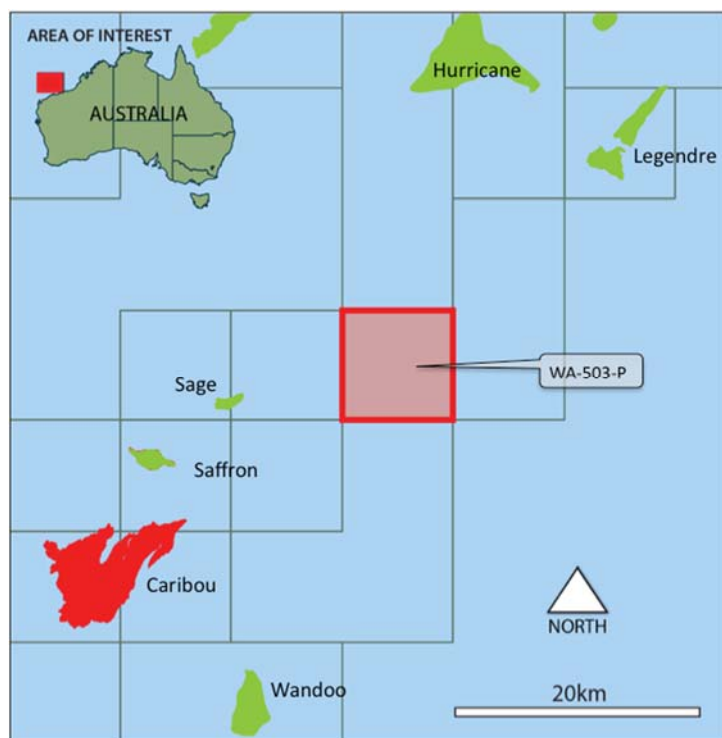
The WA-507-P permit carries a firm commitment to conduct three years of geological and geophysical studies, including licensing of the existing 3D seismic data (completed). A discretionary well is required to be drilled before the end of November 2020, with a “drill or drop” decision required twelve months prior. Importantly, Statoil’s contingent well is required a year before the WA-507-P well, providing a high degree of optionality to Pilot Energy.

During the reporting period, Pilot Energy paid TGS Nopec the balance of the Permit Award Fee owing in relation to the 3D seismic license agreement, receiving a discount of US\$108,500.

Pilot Energy is partnered in the permit by Black Swan Resources Pty Ltd, which owns the remaining 20% interest and is carried for the primary term by Pilot Energy.

WA-503-P: High Impact Shallow Water Oil Exploration

Pilot Energy holds an 80% working interest, as Operator, in exploration permit WA-503-P. The permit is located offshore Western Australia within the Dampier Sub-basin, inboard of the giant Northwest Shelf complex and on trend with numerous oil and gas discoveries, including the Legendre and Hurricane fields. The shallow water depth across the block (maximum 70 metres) allows for drilling by lower cost “jack up” drilling rigs.



The primary exploration targets in WA-503-P are the Lower Cretaceous to Upper Jurassic sandstone reservoirs within the oil rich Legendre Trend, situated along the eastern flank of the Lewis Trough. Existing exploration wells within and adjacent to the block confirm the presence of a working oil system, having encountered oil shows and a four metre oil column. The decommissioned Legendre field is situated some 20km to the northeast of the block, and produced over 40 MMBbl of oil from excellent quality sandstone reservoirs. The most recent discovery in the area, Hurricane, is believed to contain over 100 MMBbl of oil in place (plus associated gas and condensate) within a structural/stratigraphic combination trap. This is one of the play types being targeted by Pilot Energy, which has already identified three exploration leads based on the existing 3D seismic data.

During the reporting period, Gaffney Cline & Associates (GCA) provided an independent assessment of the prospective oil resources within WA-503-P, as below (refer to Company announcement of 3 March 2016).

PILOT ENERGY LIMITED
REVIEW OF OPERATIONS

For the year ended 30 September 2016

WA-503-P: High Impact Shallow Water Oil Exploration (continued)

Summary of Gross Prospective Oil Resources for Leads in WA-503-P Block

Lead	Reservoir	Gross Prospective Resources (MMBbl)		
		Low	Best	High
<i>Updip Janus</i>	Legendre	3.0	6.9	13.5
	Eliassen	1.5	3.1	6.2
<i>Updip Orion</i>	Legendre	7.6	25.1	63.5
	Eliassen	0.6	1.1	2.1
	M Australis	0.6	2.9	7.2
<i>Bojangles</i>	Angel	1.5	3.4	6.9
	M Australis	1.5	3.5	7.1

The WA-503-P exploration permit commenced on 13 May 2014, with a three-year primary term that includes a commitment to acquire 80km² of new "Broadband" 3D seismic data and complete various geological and geophysical studies. A low cost contract is in place to acquire the 3D seismic survey, with timing to be confirmed subject to vessel availability. 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 four.

Pilot Energy is partnered in the permit by Black Swan Resources Pty Ltd, which owns the remaining 20% interest and is carried for the primary term by Pilot Energy.

Western Block, North Slope Alaska

In December 2015 Pilot Energy received a final \$480,000 payment Royale Energy as the second and final settlement payment relating to the parties' legal dispute that arose from the failed Western Block farmin venture, entered in to by previous management. In August 2015 the Company's wholly owned subsidiary, Rampart Alaska LLC, \ received payment of US\$3.7 million from the State of Alaska in the form of a Net Operating Loss (NOL) credit. The NOL credit was applied for in relation to the US\$7.8 million "Big Bend" 3D seismic program completed in the Western Block, North Slope Alaska, in early 2014. The funds were used to fully pay back the balance of Pilot Energy's ACES finance facility, and as such the Company is now free of debt.

PILOT ENERGY LIMITED

REVIEW OF OPERATIONS

For the year ended 30 September 2016

Financial results and condition

The loss for the year ended 30 September 2016 attributable to members of Pilot Energy Limited after income tax was \$1,864,313 (2015 restated: profit of \$5,498,312).

This was after exploration expenditure of \$2,026,236 following the Board's decision to change its accounting policy from capitalisation to expensed as incurred (see note 1.8), settlement proceeds of \$475,285 from the Royale Energy Joint Venture and USA liabilities forgiven totalling \$1,046,326 (see note 1.9).

The Group has a working capital surplus of \$1,186,841 (2015 restated: deficit \$285,776) and net cash inflow of \$448,394 (2015: outflow \$1,946,682).

Summary of results

	2016	2015 (Restated)
	\$	\$
Revenue from ordinary activities	7,027	11,903
Other income	11,981	-
Loss before income tax	(3,225,188)	(1,308,855)
Income tax expense	-	-
Gain from discontinued operations	1,360,875	6,807,167
(Loss) / profit attributable to owners of Pilot Energy	(1,864,313)	5,498,312
Other comprehensive income / (loss)	48,222	(791,886)
Underlying (loss) / earnings per share (cents)	(0.09)	0.74
Shares in issue at reporting date	2,938,816,834	1,585,476,834
Weighted average number of shares	2,020,396,615	760,597,562

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

DIRECTORS' REPORT

The Directors present their report together with the financial statements of Pilot Energy Limited (the Company) and of the Group, being the Company and its subsidiaries for the financial year ended 30 September 2016 and the auditor's report thereon.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Name and independence status	Experience, qualifications, special responsibilities and other directorships
<p>Gavin Harper Non-executive Chairman</p> <p>Appointed: 17 March 2014</p> <p><u>Appointed positions:</u> Non-executive Director on 17 March 2014; Non-executive Chairman on 1 May 2014 Executive Chairman on 3 July 2014 Non-executive Chairman on 1 July 2015</p>	<p>Mr Harper has over 39 years of experience in the energy industry, including a variety of operational and leadership roles in his 25 years with Chevron Corporation. He has particular strengths in business development strategies, corporate-government and other major stakeholder interactions and working within complex business and joint venture environments.</p> <p>Mr Harper has been a director of a number of ASX listed companies and is currently Non-Executive Director of ASX 300 Sino Gas and Energy Holdings.</p> <p>He holds a BA (Sociology/Anthropology) from the University of Kent, and a Diploma Business Administration from the University of Strathclyde. He is a Member of the Australian Institute of Company Directors.</p>
<p>Iain Smith Managing Director</p> <p>Appointed: 10 February 2014</p> <p><u>Appointed positions:</u> Non-executive Director on 10 February 2014; Executive Director on 3 July 2014 Managing Director on 1 July 2015</p>	<p>Mr Smith has 27 years' experience of the upstream petroleum sector, in both technical and commercial roles within Australia and overseas. After a number of years within the New Ventures team of Premier Oil, Iain spent ten years in sales and general management roles within the geophysical technology/services sector in the UK, Australia and India. He subsequently held commercial advisory roles within the Exploration/New Ventures and Browse LNG business units of Woodside Energy, before joining Neon Energy as Commercial Manager. He was instrumental in the merger between Neon Energy Pty Ltd and Salinas Energy Ltd, and managed the farmout of Neon's high profile Vietnamese exploration assets to KrisEnergy Ltd and Eni SpA., and the sale of Neon's Californian assets.</p> <p>Mr Smith holds an MSc in Petroleum Geology and Geophysics from Imperial College London, and a Graduate Diploma in Business Administration from the University of Western Australia.</p>
<p>Benson Wong Executive Director Chief Financial Officer</p> <p>Appointed: 28 April 2016</p>	<p>Mr Wong is a management finance specialist with 14 years' senior managerial experience and over six years' experience in director roles. In these roles he has held overall finance, administrative and human resources responsibilities.</p> <p>Mr Wong holds a Masters Degree in Commerce from the University of New South Wales, and is an Associate Member of CPA Australia.</p>

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

1. DIRECTORS (continued)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Wilson Xue Non-executive Director Appointed 27 June 2016	Mr Xue is an entrepreneur and businessman with 25 years of senior management experience. He has an impressive record of establishing and growing businesses across a breadth of industries. In addition to Mr Xue's business acumen, his extensive international contacts will benefit the Company as it implements its growth strategy.

Mr Conrad Todd was a Non-executive Director of the Company from 2 July 2015 until 27 June 2016.

Mr Rory McGoldrick was a Non-executive Director of the Company from 14 May 2015 to 27 June 2016.

2. COMPANY SECRETARY

Mr David McArthur was appointed to the position of Company Secretary on 14 May 2015.

Mr McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 30 years' experience in the accounting profession. He has been actively involved in the financial and corporate management of a number of public listed companies over the past 28 years, and has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions. He is Company Secretary and Director of a number of public listed Companies with exposure to the ASX, TSX and AIM markets and has a Bachelor of Commerce Degree from the University of Western Australia.

3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 30 September 2016, and the number of meetings attended by each director was:

Director	Full meetings of directors	
	Number of meetings attended	Number of meetings held whilst a director
Gavin Harper	5	5
Iain Smith	5	5
Benson Wong	2	2
Wilson Xue	-	-
Conrad Todd	5	5
Rory McGoldrick	5	5

The audit, finance, remuneration and nomination, risk management and environmental functions are handled by the full board of the Company.

PILOT ENERGY LIMITED

DIRECTORS' REPORT

For the year ended 30 September 2016

4. PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was oil and gas exploration.

The Group is currently engaged in the acquisition, exploration and development of various petroleum exploration projects, targeting conventional oil and gas resources.

5. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial position of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

Significant changes in the state of affairs

In the opinion of the directors there were no matters that significantly affected the state of affairs of the Group during the financial year, other than those matters referred to in the overview above.

6. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 30 September 2016 (2015: Nil).

7. LIKELY DEVELOPMENTS

The Group will continue to pursue its strategy to further develop its exploration portfolio.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters disclosed in note 6.7 of the notes to the consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

9 ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in relation to its exploration activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

10. SHARE OPTIONS

Options granted to directors of the Group

During, or since the end of the reporting period, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and senior executives as part of their remuneration:

	Number of options granted	Exercise price per option cents	Expiry date
Executive directors			
Benson Wong	20,000,000	0.4	31 December 2019
Non-executive directors			
Wilson Xue	20,000,000	0.4	31 December 2019

These options were provided at no cost to the recipients. Issue of these options was approved by shareholders at a General Meeting on 23 June 2016.

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price cents	Number of shares
30-Sep-17	3	10,000,000
30-Jun-19	0.2	45,000,000
31-Dec-19	0.4	140,000,000
		<u>195,000,000</u>

All unissued shares are ordinary shares of the Company.

These options do not entitle the holder to participate in any share issue of the Company.

Further details in relation to the share-based payments to directors are included in the Remuneration Report.

Shares issued on exercise of options

During or since the end of the financial year, no shares were issued as a result of the exercise of options.

Options expired

146,591,813 options expired during the reporting period (30 September 2015: 29,066,679 expired).

12,500,000 options with an exercise price of 12 cents each expired on 21 October 2016.

PILOT ENERGY LIMITED DIRECTORS' REPORT

For the year ended 30 September 2016

10. SHARE OPTIONS (continued)

Options modified

Following shareholder approval on 23 June 2016, 80,000,000 options which had been issued to directors exercisable at 0.2 cents by 30 June 2019 were cancelled and replaced with new options exercisable at 0.4 cents by 31 December 2019.

- 40,000,000 of the new replacement options were issued to Mr Iain Smith and Mr Gavin Harper.
- The remaining 40,000,000 replacement options were issued to retiring directors Mr Conrad Todd and Mr Rory McGoldrick.
- As part of the approved terms and conditions for replacing the options, each received \$20,000 cash benefit.

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of \$23,747 (2015: \$34,927) to insure the directors and key management of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Group has agreed to indemnify each of the directors and the company secretary of the Company and its controlled entity, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

No agreements have been entered into to indemnify the Group's auditors against any claims by third parties arising from their report on the Annual Financial Statements.

12. NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

12. NON-AUDIT SERVICES (continued)

Details of the amounts paid to the auditor of the Company, BDO Audit (WA) Pty Ltd, and its related practices for non-audit services provided during the year are set out below:

	2016 \$	2015 \$
Taxation services		
<i>BDO Audit (WA) Pty Ltd</i>		
Tax compliance services	17,402	4,195
Total remuneration for non-audit services	17,402	4,195

13. PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED

The Directors are pleased to present your Company's 2015 Remuneration Report prepared in accordance with the Corporations Act 2001. The Report sets out the detailed remuneration information for Pilot Energy's Non-executive Directors, Executive directors and other Key Management Personnel (KMP) of the Group.

The report contains the following sections:

- (a) Remuneration governance
- (b) Executive remuneration strategy and framework
- (c) Board and management changes
- (d) Service contracts
- (e) Non-executive director remuneration
- (f) Key management personnel remuneration
- (g) Other KMP disclosures
- (h) Voting and comments made at the Company's 2016 Annual General Meeting

(a) Remuneration governance

The remuneration of directors and key management is the responsibility of the Remuneration and Nomination Committee.

(b) Executive remuneration strategy and framework

Remuneration is referred to as compensation throughout this report.

Compensation levels for key management personnel of the Group are set to attract, retain and motivate appropriately qualified and experienced Directors and Executives. As the Group's principal activities during the year were new ventures and exploration / evaluation, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The objective of the Group's reward framework is to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience.

Executive remuneration mix

The remuneration of the Managing Director and other KMP was structured as a mix of fixed remuneration and variable "at risk" remuneration through short-term and long-term incentive components.

Fixed compensation

Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group, and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not "at risk" but is appropriately benchmarked and set with reference to role, responsibilities, skills and experience.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

14. REMUNERATION REPORT – AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Performance-linked compensation

Performance-linked compensation consists of both short-term and longer-term remuneration. Performance-linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group is at the exploration and development stage. Vesting of long term incentives is based on the share price performance of the Group, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan.

Short-term incentive

Short term incentives (STI) reward employees for their individual achievements and contributions to business success and organisation outcomes during the financial year. STI's are a variable reward and are not guaranteed.

Each year, the Board considers the appropriate targets and Key Performance Indicators (KPI's) to link the STI and the level of payout if targets are met. This includes capping the maximum payout under the STI scheme and determining the minimum levels of performance to trigger payment of the STI's. Depending upon the level of management, KPI's include the following:

- satisfactory completion of development programs, on time and on budget;
- securing funding to support planned work programs;
- investor relations; and
- consideration of safety performance, corporate governance, external relations and general management.

The Managing Director has a target STI opportunity depending on achieving various corporate objectives.

Long-term incentive

Long-term incentives (LTI) are comprised of share options and performance rights (PR), which are granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

The Company adopted an Employee Share Options Scheme (ESOS) effective 23 February 2010. Under the ESOS, the Company may grant options to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Monte Carlo Simulation model.

Performance Rights

On 1 July 2014, 45,000,000 Performance Rights were granted to key management personnel under the ESOS. The rights expire on 30 June 2018. Specific disclosure details of the 1 July 2014 grant are as follows:

	Performance rights granted	Value of rights granted \$
Directors		
Iain Smith	15,000,000	5,897
Gavin Harper	15,000,000	5,897
Conrad Todd ⁽¹⁾	15,000,000	5,898

⁽¹⁾ Mr Conrad Todd resigned as a director on 27 June 2016.

PILOT ENERGY LIMITED**DIRECTORS' REPORT****For the year ended 30 September 2016**

14. REMUNERATION REPORT - AUDITED (continued)**(b) Executive remuneration strategy and framework (continued)*****Long-term incentive (continued)***Performance Rights (continued)

The above grants made under the ESOS will vest subject to the satisfaction of the following vesting hurdles:

- (1) Subject to remaining in tenure as a director of the Company:
 - 5,000,000 to vest on 30 June 2015;
 - 5,000,000 to vest on 30 June 2016; and
 - 5,000,000 to vest on 30 June 2017 (Tenure Vested Performance Rights).
- (2) 5,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 3.5 cents for five consecutive days prior to Expiry Date.
- (3) 10,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 5 cents for five consecutive days prior to Expiry Date – less any performance rights that may have converted under Hurdle 2.
- (4) 15,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 8 cents for five consecutive days prior to Expiry Date – less any performance rights that may have converted under Hurdle 3.

Key valuation assumptions made at valuation date are summarised below:

Key value assumptions

Grant date	8-Oct-14
Underlying share price at grant date (cents)	0.5
Expiry Date	30-Jun-18
Vesting start date	31-Dec-17
Vesting end date (Tranche 1)	30-Jun-15
Vesting end date (Tranche 2)	30-Jun-16
Vesting end date (Tranche 3)	30-Jun-17
Risk free rate	3.7%
Volatility factor	127.7%
Dividend yield	Nil

PILOT ENERGY LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Long-term incentive (continued)

Performance Rights (continued)

No performance rights were granted as compensation to key management personnel during the reporting period.

Details of performance rights over ordinary shares in the Company are as follows:

	Number granted	FY granted	Share price at grant date cents	Vested percentage	Vested number	FY in which shares may vest
Executive directors						
Iain Smith	5,000,000	2015	0.5	100	5,000,000	2015
	5,000,000	2015	0.5	100	5,000,000	2016
	5,000,000	2015	0.5	-	-	2017
Non-executive directors						
Gavin Harper	5,000,000	2015	0.5	100	5,000,000	2015
	5,000,000	2015	0.5	100	5,000,000	2016
	5,000,000	2015	0.5	-	-	2017
Conrad Todd ⁽¹⁾	5,000,000	2015	0.5	-	-	2015
	5,000,000	2015	0.5	-	-	2016
	5,000,000	2015	0.5	-	-	2017

⁽¹⁾ Mr Conrad Todd resigned as a director on 27 June 2016. The 15,000,000 performance rights above were forfeited as he did not meet the vesting hurdle disclosed above at the time of resignation.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Long-term incentive (continued)

Options over equity instruments granted as compensation during the year

Details of options over unissued shares in the Company that were granted for no consideration to key management personnel under the ESOS during the year are as follows:

	Options granted	Value of options granted \$
Directors		
Gavin Harper ⁽ⁱ⁾	20,000,000	32,000
Iain Smith ⁽ⁱ⁾	20,000,000	32,000
Benson Wong ⁽ⁱⁱ⁾	20,000,000	28,000
Wilson Xue ⁽ⁱⁱ⁾	20,000,000	28,000
Conrad Todd ⁽ⁱ⁾	20,000,000	32,000
Rory McGoldrick ⁽ⁱ⁾	20,000,000	32,000

(i) Modification of terms of equity-settled share-based payment transactions

On 27 June 2016 80,000,000 options which had been issued to Mr Iain Smith, Mr Gavin Harper, Mr Conrad Todd and Mr Rory McGoldrick, exercisable by 30 June 2019 at 0.2 cents, were replaced with 80,000,000 new options exercisable at 0.4 cents by 31 December 2019. The replacement options were approved by shareholders on 23 June 2016, and the table above reflects the adjusted values on the grant date.

Key value assumptions and vesting conditions	Modified options	Original options
5 day VWAP of underlying security (cents)	-	0.1
Exercise price (cents)	0.4	0.2
Grant date	23 June 2016	6 August 2015
Expiry date	31 December 2019	30 June 2019
Life of the options (years)	4.61	3.90
Volatility	130%	90%
Risk free interest rate	1.62%	1.96%
50% of Tranche 1		
Vesting conditions	Remains a KMP 12 months' after grant date	5 day VWAP share price equals or exceeds 0.3 cents
Valuation per option (cents)	0.16	0.05
Number of options	10,000,000	10,000,000
50% of Tranche 1		
Vesting conditions	Remains a KMP 24 months' after grant date	5 day VWAP share price equals or exceeds 0.6 cents
Valuation per option (cents)	0.16	0.047
Number of options	10,000,000	10,000,000

PILOT ENERGY LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Long-term incentive (continued)

Options over equity instruments granted as compensation during the year (continued)

(i) Modification of terms of equity-settled share-based payment transactions (continued)

As part of the approved terms and conditions for modification of the options, these directors each received \$20,000 cash benefit, totalling \$80,000.

Fair value of modified options	\$
Total fair value of options after modification	128,000
Total fair value of options before modification	38,800
Difference	<u>89,200</u>

(ii) New options

Key valuation assumptions made at valuation date are summarised below:

Key value assumptions

Exercise price (cents)	0.4
Grant date	23 June 2016
Expiry date	31 December 2019
Life of the options (years)	3.52
Volatility	130%
Risk free interest rate	1.62%
50% of Tranche 1	
Vesting conditions	Remains a KMP 12 months' after grant date
Valuation per option (cents)	0.14
Number of options	10,000,000
50% of Tranche 1	
Vesting conditions	Remains a KMP 24 months' after grant date
Valuation per option (cents)	0.14
Number of options	10,000,000

No options vested during the reporting period.

PILOT ENERGY LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Long-term incentive (continued)

Options over equity instruments granted as compensation during the year (continued)

All options refer to options over ordinary shares of Pilot Energy Limited, which are exercisable on a one-for-one basis.

Details of options over ordinary shares in the Company that were granted as compensation to key management personnel during the reporting period are as follows:

	Number granted	Grant date	Fair value at grant date cents	% vested in year (A)	% forfeited in year	Date on which grant vests	Exercise price per option cents	Expiry date
Executive directors								
Iain Smith	10,000,000	25-May-15	0.16	-	-	23-Jun-17	0.4	31-Dec-19
	10,000,000	25-May-15	0.16	-	-	23-Jun-18	0.4	31-Dec-19
Benson Wong	10,000,000	23-Jun-16	0.14	-	-	23-Jun-17	0.4	31-Dec-19
	10,000,000	23-Jun-16	0.14	-	-	23-Jun-18	0.4	31-Dec-19
Non-executive directors								
Gavin Harper	10,000,000	25-May-15	0.16	-	-	23-Jun-17	0.4	31-Dec-19
	10,000,000	25-May-15	0.16	-	-	23-Jun-18	0.4	31-Dec-19
Wilson Xue	10,000,000	23-Jun-16	0.14	-	-	23-Jun-17	0.4	31-Dec-19
	10,000,000	23-Jun-16	0.14	-	-	23-Jun-18	0.4	31-Dec-19
Conrad Todd	10,000,000	25-May-15	0.16	-	-	23-Jun-17	0.4	31-Dec-19
	10,000,000	25-May-15	0.16	-	-	23-Jun-18	0.4	31-Dec-19
Rory McGoldrick	10,000,000	25-May-15	0.16	-	-	23-Jun-17	0.4	31-Dec-19
	10,000,000	25-May-15	0.16	-	-	23-Jun-18	0.4	31-Dec-19

(A) The percentage vested in the year represents the number of options that become unconditional due to the recipient satisfying specified vesting conditions.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Consequences of performance on shareholder wealth

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years, however as the Company is not a petroleum producer, does not specifically relate to financial performance.

Financial performance in respect of the current financial year and the previous four financial years is detailed below:

Shareholder returns	2016	2015 Restated	2014 Restated	2013	2012
Net (loss) / profit attributable to equity holders (\$)	(1,864,313)	5,498,312	(17,187,866)	(4,414,050)	(5,077,388)
Basic (loss) / earnings per share (cents)	(0.09)	0.74	n/a	n/a	n/a
Share price at year end (cents)	0.20	0.10	0.80	n/a	n/a
Market capitalisation (\$)	5,877,634	158,547,683	335,593,822	n/a	n/a
Net tangible assets / (liabilities) (NTA) (\$)	1,254,228	(277,943)	(6,095,105)	827,081	n/a
NTA Backing (cents)	0.043	(0.018)	(1.453)	0.412	n/a

During the financial years noted above, there were no dividends paid or other returns of capital made by the Group to shareholders. The Group's financial performance is impacted by a number of factors.

As the Group is still in the exploration phase of its operations, and as such does not generate revenue, the share price and thus the Company's market capitalisation is the only indicator of the Group's overall performance.

(c) Board and Management Changes

On 30 March 2016, the Company entered into a Share Subscription Agreement (SSA) with a group of investors (Subscribers) to raise A\$3.6 million. The SSA was a two-tranche placement, and the first tranche was completed on 26 April 2016.

In accordance with the terms of the SSA, upon completion of the Tranche 1 investment, Mr Benson Wong of the Subscribers was appointed Executive Director and Chief Financial Officer on 26 April 2016.

Following shareholder approval on 23 June 2016, upon completion of the Tranche 2 investment, Mr Wilson Xue was appointed as a Non-executive Director on 27 June 2016 in accordance with the terms of the SSA. At this time, Mr Conrad Todd and Mr Rory McGoldrick stepped down as directors of the Company and assumed the position of Advisors to the Board. Dr Xingjin Wang also joined the management team at this time as Advisor to the Board.

(d) Service contracts

On appointment to the Board, all non-executive directors enter into a consultancy agreement with the Group in the form of a contract of appointment. The contract summarises the Board's policies and terms, including compensation, relevant to the officer or director.

Executive remuneration and other terms of employment are formalised in service agreements. The service agreements outline the components of compensation paid to key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performance by KMPs and any changes required to meet the principles of the compensation policy.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(d) Service contracts (continued)

The major provisions of the agreements relating to remuneration are set out below:

Name	Term of agreement	Employee notice period	Employer notice period	Base salary	Termination Benefit ***
Iain Smith	Ongoing from June 2016	6 months	6 months	\$140,000 *	6 months' base salary
Benson Wong	Ongoing from June 2016	1 month	6 months	\$120,000 **	6 months' base salary

* Mr Ian Smith's base salary is inclusive of superannuation.

** Mr Benson Wong's base salary does not include superannuation.

*** Termination benefits are payable upon early termination by the Group, other than for gross misconduct. For Mr Iain Smith termination benefit would be equal to 50% of total remuneration paid in the financial year immediately preceding the date on which notice of termination was given. For Mr Benson Wong termination benefit would be equal to base salary for the notice period.

In addition to their base salary, each executive director is paid a standard director's fee of \$40,000 per annum inclusive of superannuation.

(e) Non-executive director remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Remuneration and Nomination Committee.

The current base fees were last reviewed with effect from 1 May 2015. The fees approved by the Board are inclusive of the statutory superannuation amount.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$340,000 per annum and was approved by shareholders at the Annual General Meeting on 27 February 2015.

Non-executive directors' base fees are currently \$40,000 (including superannuation) per annum and they do not receive cash performance related compensation. Directors' fees cover all main board activities and memberships of sub-committees.

In addition to their base fees, non-executive directors may also receive payment for consultancy services at the lesser of \$200 per hour or \$1,500 per day plus any reimbursable expenses.

The Chairman's fees are determined independently to the fees paid to the non-executive directors, based on comparative roles in the external market.

On 1 July 2014, a Consultancy Agreement was entered into with New Energy Solutions Pty Ltd, a company associated with Gavin Harper, whereby Mr Harper is paid a total package of \$60,000 per annum for his role as Executive Chairman. Effective 1 July 2015, Mr Harper assumed the role of non-executive Chairman at a reduced fee of \$50,000. On 15 February 2016 the Board approved an increase in the non-executive Chairman's fee to a total package of \$60,000 per annum effective 1 March 2016.

PILOT ENERGY LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(f) Key management personnel remuneration

Name		Short-term employee benefits**			Post-employment benefits	Share based payments				
		Salary and fees (A)	Short term incentive bonus (B)	Non-monetary benefits (C)	Super-annuation	Rights (D)	Options (D)	Total	Fixed Remuneration %	Performance based remuneration %
Executive directors										
Iain Smith	2016	180,000	81,000	4,594	-	-	12,144	277,738	69%	34%
	2015	98,333	-	7,860	-	5,897	9,700	121,790	87%	13%
Benson Wong ⁽¹⁾ *	2016	71,475	-	1,971	6,425	-	5,696	85,567	93%	7%
	2015	-	-	-	-	-	-	-	-	-
Sub-total executive directors' remuneration	2016	251,475	81,000	6,565	6,425	-	17,840	363,305		
	2015	98,333	-	7,860	-	5,897	9,700	121,790		
Non-executive directors										
Gavin Harper	2016	55,833	-	4,594	-	-	12,144	72,571	94%	17%
	2015	57,500	-	7,860	-	5,897	9,700	80,957	81%	19%
Wilson Xue ⁽²⁾	2016	9,695	-	1,192	921	-	5,696	17,504	67%	33%
	2015	-	-	-	-	-	-	-	-	-
Sub-total non-executive directors' remuneration	2016	65,528	-	5,786	921	-	17,840	90,075		
	2015	57,500	-	7,860	-	5,897	9,700	80,957		
Total current directors' remuneration	2016	317,003	81,000	12,351	7,346	-	35,680	453,380		
	2015	155,833	-	15,720	-	11,794	19,400	202,747		

PILOT ENERGY LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(f) Key management personnel remuneration

Name		Short-term employee benefits**			Post-employment benefits	Share based payments				
		Salary and fees (A)	Short term incentive bonus (B)	Non-monetary benefits (C)	Super-annuation	Rights (D)	Options (D)	Total	Fixed Remuneration %	Performance based remuneration %
Former directors										
Conrad Todd ⁽³⁾	2016	30,000	-	3,401	-	-	12,144	45,545	90%	27%
	2015	40,000	-	7,860	-	5,898	9,700	63,458	75%	25%
Rory McGoldrick ⁽³⁾	2016	29,997	-	3,401	-	-	12,144	45,542	90%	27%
	2015	15,305	-	2,992	-	-	9,700	27,997	65%	35%
Sub-total former directors' remuneration	2016	59,997	-	6,802	-	-	24,288	91,087		
	2015	55,305	-	10,852	-	5,898	19,400	91,455		
Total key management personnel remuneration	2016	377,000	81,000	19,153	7,346	-	59,968	544,467		
	2015	211,138	-	26,572	-	17,692	38,800	294,202		

Notes in relation to the table of directors' remuneration

⁽¹⁾ Benson Wong appointed 26 April 2016

⁽²⁾ Wilson Xue appointed 27 June 2016

⁽³⁾ Conrad Todd and Rory McGoldrick resigned 27 June 2016

* Salary and fees amount of \$71,475 for Benson Wong includes \$3,846 in respect of Annual Leave.

** As part of the approved terms and conditions for modification of 80,000,000 options which had been issued to Mr Iain Smith, Mr Gavin Harper, Mr Conrad Todd and Mr Rory McGoldrick, these directors each received \$20,000 cash benefit, totalling \$80,000.

PILOT ENERGY LIMITED
DIRECTORS' REPORT

For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(f) Key management personnel remuneration (continued)

Notes in relation to the table of directors' remuneration (continued)

(A) During the reporting period, certain key management persons were paid for commercial, arms-length consulting services. The total quantum of these transactions as disclosed in note 6.3 of the notes to the consolidated financial statements was:

- | | | | |
|----------------|-------------------------|-------------------|---------------------------|
| • Iain Smith | Nil (2015: \$58,767) | • Conrad Todd | \$53,438 (2015: \$33,938) |
| • Gavin Harper | \$9,800 (2015: \$4,800) | • Rory McGoldrick | \$34,750 (2015: \$16,200) |

(B) The remuneration of Iain Smith is based on a fixed salary that is low, relative to Managing Director remuneration for Pilot Energy's peer companies. An STI bonus equivalent to up to 50% of the fixed salary is payable, at the board's discretion, upon achieving various performance objectives. These performance objectives are established on an annual basis, and for the current reporting period included undertaking asset acquisitions, resolving the Alaskan legal dispute, and raising capital at a premium to the prior capital raising. Other objectives included deferral of capital expenditure where appropriate, payment of the ACES debt facility, and maintaining all assets in good standing. Of the \$90,000 available to Iain Smith as an STI bonus for the reporting period, he received \$81,000, as determined by the board (excluding Iain Smith);

(C) Comprises Directors and Officers insurance premiums;

(D) The fair value of performance rights and options granted was determined using the Black-Scholes simulation pricing model

PILOT ENERGY LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(g) Other KMP disclosures

KMP performance right holdings

	Held at 1 October 2015	Granted as compensation	Forfeited on resignation	Held at 30 September 2016	Vested during the year	Vested and exercisable at 30 September 2016	Unvested
Executive directors							
Iain Smith	15,000,000	-	-	15,000,000	5,000,000	-	5,000,000
Non-executive directors							
Gavin Harper	15,000,000	-	-	15,000,000	5,000,000	-	5,000,000
Conrad Todd ⁽¹⁾	15,000,000	-	(15,000,000)	-	5,000,000	-	-

⁽¹⁾ Mr Conrad Todd resigned as a director on 27 June 2016

PILOT ENERGY LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(g) Other KMP disclosures (continued)

KMP option holdings

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

	Held at 1 October 2015	Options cancelled	Options expired	Granted as compensation	Held on resignation	Held at 30 September 2016	Vested during the year	Vested and Exercisable at 30 September 2016	Unvested
Executive directors									
Iain Smith	23,000,000	(20,000,000)	(3,000,000)	20,000,000	-	20,000,000	-	-	20,000,000
Benson Wong	-	-	-	20,000,000	-	20,000,000	-	-	20,000,000
Non-executive directors									
Gavin Harper	20,000,000	(20,000,000)	-	20,000,000	-	20,000,000	-	-	20,000,000
Wilson Xue	-	-	-	20,000,000	-	20,000,000	-	-	20,000,000
Conrad Todd ⁽¹⁾	20,000,000	(20,000,000)	-	20,000,000	(20,000,000)	-	-	-	-
Rory McGoldrick ⁽¹⁾	20,000,000	(20,000,000)	-	20,000,000	(20,000,000)	-	-	-	-

⁽¹⁾ Mr Conrad Todd and Mr Rory McGoldrick resigned as directors on 27 June 2016

**PILOT ENERGY LIMITED
DIRECTORS' REPORT**

For the year ended 30 September 2016

14. REMUNERATION REPORT - AUDITED (continued)

(g) Other KMP disclosures (continued)

KMP shareholdings

	Held at 1 October 2015	Held on appointment or (resignation)	Acquired / Purchases	Held at 30 September 2016
Executive directors				
Iain Smith	60,074,839	-		60,074,839
Benson Wong	-	55,560,000	129,627,000	185,187,000
Non-executive directors				
Gavin Harper	74,060,118	-	5,000,000	79,060,118
Wilson Xue	-	370,380,000	-	370,380,000
Conrad Todd	68,000,000	(68,000,000)	-	-
Rory McGoldrick	53,450,000	(53,450,000)	-	-

Loans to key management personnel

Details of loans made to Directors and other key management personnel of the Group are set out below:

	2016	2015
	\$	\$
Beginning of year	52,300	-
Interest charged	2,808	-
Less repaid	(55,108)	-
Loans advanced	-	52,300
End of year	-	52,300

The purpose of this loan was to enable KMP to acquire ordinary shares in the Company.

The loan was at commercial arms length with interest payable at a rate of 7%.

(h) Voting and comments at the Company's 2015 Annual General Meeting

The Company received more than 80.51% of "yes" votes on its remuneration report for the 30 September 2015 financial year. The Company did not receive any specific feedback at the annual general meeting or throughout the year on its remuneration practices.

THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

**PILOT ENERGY LIMITED
DIRECTORS' REPORT**

For the year ended 30 September 2016

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in the Directors' Report.

This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Iain Smith', is positioned above the name and title of the signatory.

IAIN SMITH

Managing Director

Dated at Perth, Western Australia this 24th day of November 2016.

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF PILOT ENERGY LIMITED

As lead auditor of Pilot Energy Limited for the year ended 30 September 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pilot Energy Limited and the entities it controlled during the period.



Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 24 November 2016

CORPORATE GOVERNANCE STATEMENT

The 2016 Corporate Governance Statement is dated as 30 September 2016 and reflects the corporate governance practices in place throughout the 2016 financial year.

Pilot Energy Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of Corporate Governance. The Board continues to review the framework and practices to ensure that they meet the interests of shareholders. The Company and its controlled entity together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. Additionally, they comply with the 3rd edition of the ASX Corporate Governance Principles and Recommendations.

Board of Directors

Role of the Board

The matters expressly reserved to the Board of Directors are set out in a written policy and include:

- Establishment of long-term goals of the Group and strategic plans to achieve these goals;
- Monitoring the achievement of these goals;
- Review of the management accounts and reports to monitor the progress of the Group;
- Review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- Review and approval of the annual and interim financial reports;
- Nominating and monitoring the external auditor;
- Approving all significant business transactions;
- Appointing and monitoring senior management;
- All remuneration, development and succession issues;
- Ensuring the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities;
- Overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- Ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board; and
- Ensuring that the Company reports on its measurable objectives in relation to gender diversity and assesses annually both the objectives and progress in achieving gender diversity.

The Board delegates day to day operational matters to the management of the Company.

The Board evaluates this policy on an ongoing basis.

Board composition

The Directors' Report contains details of the Directors' skills, experience and education. The Board seeks to establish a Board that consists of Directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Group's business with excellence. To maintain this, the Group's policy is that Executive Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

Board composition (continued)

The specific skills that the Board collectively bring to the Company include:

- Industry Experience/ technical qualification
- Commercial experience
- Public company experience
- Analytical expertise
- Financial expertise
- Risk Management experience
- Strategic planning experience
- Strategic leadership experience
- Corporate Governance expertise
- Communications experience
- Inter personal experience

The chair of any sub committees formed by the Board has specific skills in the area for which they are responsible.

The Board does not have a director with legal experience, as any legal work is out sourced to external lawyers.

The Board comprises an independent Non-Executive Chairman, two Executive Directors and one Non-Executive Director.

Details of the Directors are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new Directors and has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent Director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate.

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a Director.

The appointment of the Directors must be approved by the majority of the Shareholders at the first Annual General Meeting after the appointment.

Retirement and re-election of directors

The Constitution of the Company requires one third of Directors (or the number nearest one third, rounded up), other than the Managing Director, to retire from office at each Annual General Meeting. No Director (other than the Managing Director) shall hold office for a period in excess of three years without seeking re-election.

Directors who have been appointed by the Board are required to retire from office at the Annual General Meeting following their appointment and are not taken in to account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders.

PILOT ENERGY LIMITED

CORPORATE GOVERNANCE STATEMENT

Independence of directors

The Board has reviewed the position and association of each of the Directors in office at the date of this report and considers that only the Chairman, Gavin Harper, is deemed independent. In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

Although Mr Xue has no material business or contractual relationship to the Company, nor any material pecuniary interest with the Company, he is not considered independent due to his substantial shareholding in the Company. Other than his shareholding, Mr Xue does satisfy the test for independence.

Director education

All new Directors complete an induction process. The Non-Executive Directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge. The Board are specifically provided the opportunity to enhance their financial, regulatory and compliance skills in relation to public companies through external courses.

Independent professional advice

With prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Board Performance Review

The performance of all Directors is assessed through review by the Board as a whole of a Director's attendance at and involvement in Board meetings, their performance and other matters identified by the Board or other Directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

The Directors conducted an internal performance evaluation of the Members of the Board during the reporting period.

Director Remuneration

Details of the Group's remuneration policies are included in the "Remuneration Report" section of the Directors' Report.

Non-Executive Directors will be remunerated by cash payments (including statutory superannuation), may receive equity performance incentives and will not be provided with any benefits for ceasing to be a Director. The Executive Directors are remunerated by both fixed remuneration and equity performance based remuneration, subject to obtaining all regulatory approvals from shareholders. A reasonable period of notice of termination is required and is detailed in the Executive's employment contract.

Managing Business Risk

The Group maintains policies and practices designed to identify and manage significant risks including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Group's business plan;
- corporate strategy guidelines and procedures to review and approve the Group's strategic plans;
- establish and continuously assess a Group Risk Profile which identifies all significant risk to the Group and controls that are in place to minimise or mitigate the risk. and
- insurance and risk management programs which are reviewed by the Board

Managing Business Risk (continued)

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings.

The Board's review of business risk is also based on reports from the Audit and Risk Management Committee.

The Board receives regular reports about the financial condition and operating results of the consolidated Group. The Managing Director (or in his absence the Chairman) and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Group's financial reports present a true and fair view of the Group's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Group's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

The Company assesses its exposure to economic, environmental and social sustainability risks. The Board assesses the likely impact of changes and implements strategies to minimise exposure to these specific risks. Due to risk procedures adopted by the Company, it is not believed the Company has a material exposure to these risks.

The Company does not have an internal audit function. The Board has determined that the established internal controls for the Company, combined with the work of the audit and risk management committee, at this stage satisfactorily address the function that would otherwise be dealt with by an internal audit function.

Internal Controls

Procedures have been established at the Board and Executive management levels that are designed to safeguard the assets and interests of the Group, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To ensure these established procedures are being followed, the Directors:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

Board Committees

Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be Non-Executive Directors.

The primary role of the Audit function of the Committee is to:

- Assist the Board in fulfilling its overview of the audit process;
- Assist the Board in overseeing financial reporting;
- Assist the Board in fulfilling its overview of the systems of internal control which the Board and management have established;
- Monitor, review and recommend the adoption of the financial statements of the Company;
- Regularly review the adequacy of accounting, internal controls, reporting and other financial management systems and practices of the Company;
- Review the financial report and other financial information distributed externally;
- Review any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Improve the quality of the accounting function;

PILOT ENERGY LIMITED

CORPORATE GOVERNANCE STATEMENT

- Review audit reports to ensure that if major deficiencies or breakdowns in controls or procedures are identified, appropriate and prompt remedial action is taken by management;
- Review the nomination and performance of the auditor;
- Liaise with external auditors and ensure that the annual and half-year statutory audits are conducted in an effective manner;
- Monitor the establishment of appropriate ethical standards;
- Monitor the procedures in place to ensure compliance with the *Corporations Act 2001*, *Australian Accounting Standards*, ASX Listing Rules and all other regulatory requirements;
- Address any matters outstanding with the auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the ASX and financial institutions.

The primary role of the risk function of the committee is to assist the Board in its oversight of the Company's management of key risks, including strategic and operational risks, as well as the guidelines, policies and processes for monitoring and mitigating such risks.

Risk assessment and risk management are the responsibility of the Company's management. The Committee has an oversight role and in fulfilling that role, it relies on the reviews and reports received from management.

The Committee shall have the following authority and responsibilities:

- Review and discuss with management the Company's risk governance structure, risk assessment and risk management practices and the guidelines, policies and processes in place for risk management
- Review and discuss with management the Board's risk appetite and strategy relating to key risks, including credit risk, liquidity and funding risk, market risk, product risk and reputational risk, as well as the guidelines, policies and processes for monitoring and mitigating such risks
- Discuss with the Company's executive team the Company's risk assessment and risk management guidelines, policies and processes, as the case may be. The Risk Committee meets separately at least twice a year with the executive team
- Receive, as and when appropriate, reports from the Company's Executive General Manager-Corporate & Risk on the results of risk management reviews and assessments
- Review disclosure regarding risk contained in the Company's Annual Report
- Review and assess the nature and level of insurance coverage
- Initiate and monitor special investigations into areas of corporate risk or breakdowns in internal controls
- Discharge any other duties or responsibilities delegated to the Committee by the Board
- Delegate any of its responsibilities to subcommittees as the Committee may deem appropriate
- Retain such outside counsel, experts and other advisors as the committee may deem appropriate in its sole discretion and approve related fees
- Report its actions and any recommendations to the Board.
- Review at least annually the adequacy of this Charter and recommend any proposed changes to the board for approval.

The Committee consists of the following Non-Executive Directors:

- Mr Wilson Xue (Committee Chair)
- Mr Gavin Harper- (Committee member)

The auditors and the Managing Director are invited to attend Audit and Risk Management Committee meetings at the discretion of the Committee.

The Audit and Risk Management Committee met twice during the year.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee operates in accordance with its Charter. The main responsibilities of the Remuneration Committee are:

- Determine remuneration policies and remuneration of Directors;
- Determine remuneration and incentive policies of Key Executives;
- Determine the Group recruitment, retention and termination policies and procedures for senior management;
- Determine and review incentive schemes;
- Ensure all Directors and senior executives have a written agreement setting out the terms of their appointment.
- Evaluate senior executive performance on an annual basis. This occurred during the 2016 financial year.
- Determine and review superannuation arrangements of the Group;
- Determine and review professional indemnity and liability insurance for Directors and senior management;
- Review the Board composition to ensure the Board has the correct balance of skills and expertise.
- Appointment of the Managing Director and the Company Secretary
- Approve the recommendation for the appointment of key management personnel presented to the Committee by the Managing Director
- Performance appraise the Board members and the Managing Director
- Succession planning for Board members and the Managing Director
- Approve the recommended succession planning for key management personnel presented to the Committee by the Managing Director.
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary

The Remuneration and Nomination Committee can seek independent external advice from consultants with specific industry experience relevant to Lodestar's remuneration assessment.

Specific policies and procedures regarding remuneration determination are contained within the Directors Report.

The Committee consists of the following Non-Executive Directors:

- Mr Wilson Xue (Committee Chair)
- Mr Gavin Harper (Committee Member)

The Committee did have a specific need to meet during the year.

Ethical Standards

Code of Conduct

In pursuit of the highest level of ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Group's affairs. This code is provided to all Directors and employees. The code stipulates that any unethical behaviour is to be reported to the Group's Managing Director (or in his absence, the Chairman) as soon as possible.

The Code of Conduct is based on respect for the law and the rights of individuals, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

Trading in the Company's Securities by Directors and Employees

The Board has adopted a policy in relation to dealings in the securities of the Group which applies to all Directors and employees. Under the policy, Directors are prohibited from short-term or "active" trading in the Group's securities and Directors and employees are prohibited from dealing in the Group's securities whilst in the possession of price sensitive information. The Company's Managing Director (or in his place the Chairman) must be notified of any proposed transactions in the Company's shares.

Any Director or employee receiving shares pursuant to the Company's equity based remuneration scheme (refer to the remuneration report) is not permitted to enter into transactions which limit the economic risk of participating in the scheme.

This policy is provided to all Directors and employees. Compliance with it is reviewed on an on-going basis in accordance with the Company's risk management systems.

Continuous Disclosure

The Group has in place a continuous disclosure policy, a copy of which is provided to all Group officers and employees who may from time to time be in possession of undisclosed information that may be material to the price or value of the Group's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules and to ensure officers and employees of the Group understand these obligations.

The procedure adopted by the Group is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who, in consultation with the Board (where practicable) and any other appropriate personnel (including external advisors if deemed appropriate) will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

At least once every 12-month period, the Board will review the company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

Communication with Shareholders

The Board aims to ensure that Shareholders are kept fully informed of all major developments affecting the Group. Information is communicated to Shareholders as follows:

- As the Company is a disclosing entity, regular announcements are made to the ASX in accordance with the Group's disclosure policy, including the half-year review, the year-end audited accounts and an Annual Report.
- The Board ensures the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments
- Shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry or electronically via the website
- Shareholders are provided the opportunity to receive communications electronically through the Company's share registry.
- Any proposed major changes in the Group's affairs are submitted to a vote of Shareholders, as required by the Corporations Act 2001 and the ASX Listing Rules
- The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All Shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group; and
- The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report
- The Board seek feedback from proxy advisers to assess the appropriateness and adequacy of its reporting to shareholders.

The Board reviews this policy and compliance with it on an ongoing basis.

Diversity Policy

The Group is committed to workplace diversity at all levels and recognises the benefits arising from employee and Board diversity. The benefits include a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talent.

The Group recognises that diversity includes matters of age, disability, ethnicity, marital and family status, religion and culture, sexual orientation and gender identity.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and skills and performance
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff
- Appreciate and respect the unique aspects that an individual brings to the workplace
- Where possible and practicable, increase participation and employment opportunities for indigenous people
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace
- Take action to prevent discrimination, harassment, vilification or victimisation; and
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity
- Identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees, and to offer employees opportunities to reach management levels with the Group.

The Board is committed to workplace diversity and has developed measurable objectives and strategies to support the framework and objectives of the Diversity Policy, and the Board is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. For the 2016 financial year the Boards' objectives were met by the Group. The Board assesses the progress and achievement of the objectives.

Pursuant to ASX Corporate Governance Recommendation 1.5, the Company discloses the following information as at the date of this report:

Percentage details	Women	Men
Women and Men employed within the Group	-	100%
Women and Men at senior management level	-	100%
Women and Men employed at Board level	-	100%
Women and Men employed by Corporate services provider	75%	25%

PILOT ENERGY LIMITED

CORPORATE GOVERNANCE STATEMENT

ASX Corporate Governance principles and recommendations not followed - "if not, why not" approach

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

Recommendation 2.1

A majority of the Board should be independent directors

Recommendation 4.2

The audit and risk management committee should be structured so that it:

- *consists only of non-executive directors*
- *consists of a majority of independent directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

Recommendation 8.2

The remuneration and nomination committee should be structured so that it:

- *consists of a majority of independent directors*
- *is chaired by an independent chair*
- *has at least three members*

Only one of the Company's 4 directors is deemed independent. In view of the size of the Company and the nature of its activities, the Board considers that the current Board structure is a cost effective and practical means of directing and managing the Company

While the ASX Principles recommend an ideal structure for the audit and risk management and remuneration and nomination committees, they recognise that for smaller Boards it may not be possible to implement such a structure.

Given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with these ASX Principles to be materially detrimental to the Company.

This statement is current as at 30 September 2016 and has been approved by the Board.



Chairman – Gavin Harper



Director – Wilson Xue

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	30 Sep 2016 \$	30 Sep 2015 Restated \$	1 Oct 2014 Restated ⁽¹⁾ \$
Assets				
Cash and cash equivalents	4.1(a)	1,335,196	510,460	2,629,375
Trade and other receivables	4.2	16,102	89,072	42,723
Prepayments		39,898	35,881	79,784
Assets held in discontinued operations	1.9	-	606,202	-
Total current assets		1,391,196	1,241,615	2,751,882
Trade debtors and other receivables	4.2	66,666	5,597	5,598
Property and equipment		721	2,236	5,500
Total non-current assets		67,387	7,833	11,098
Total assets		1,458,583	1,249,448	2,762,980
Liabilities				
Trade and other payables	4.3	176,763	355,846	1,359,685
Borrowings		8,131	8,482	7,498,400
Employee benefits		19,461	-	-
Liabilities held in discontinued operations	1.9	-	1,163,063	-
Total current liabilities		204,355	1,527,391	8,858,085
Total liabilities		204,355	1,527,391	8,858,085
Net assets		1,254,228	(277,943)	(6,095,105)
Equity				
Issued capital	5.1	42,952,930	39,685,932	38,763,813
Reserves		(228,422)	(317,740)	1,756,384
Accumulated losses		(41,470,280)	(39,646,135)	(46,615,302)
Total equity attributable to equity holders of the Company		1,254,228	(277,943)	(6,095,105)

⁽¹⁾ With effect from 1 October 2015, the directors of Pilot Energy Limited made a voluntary change in accounting for exploration and evaluation expenditure from capitalisation to expense when incurred. As such, in accordance with AASB 101.39, a third Consolidated Statement of Financial Position and notes to the restated amounts have been presented. The standard requires that the change in accounting policy is shown from the first day of the prior year to which the change is made, being 1 October 2014 (refer note 1.8).

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 SEPTEMBER 2016

		2016	2015
	Note	\$	Restated \$
Revenue from continuing operations	2.4	7,027	11,903
Other income	2.2	11,981	-
Expenses			
Exploration expenses		(2,026,236)	(477,378)
Personnel expenses	2.3	(659,061)	(340,765)
Administrative expenses		(173,201)	(218,596)
Professional fees		(338,341)	(255,222)
Other expenses		(45,320)	(26,898)
Finance expenses	2.4	(2,037)	(1,899)
Results from operating activities		(3,225,188)	(1,308,855)
Loss before income tax		(3,225,188)	(1,308,855)
Income tax expense	2.5	-	-
Loss for the year from continuing operations		(3,225,188)	(1,308,855)
Profit for the year from discontinued operations	1.9	1,360,875	6,807,167
(Loss) / profit for the year		(1,864,313)	5,498,312
(Loss) / earnings per share (cents per share)			
<u>From Continuing Operations</u>			
Basic and diluted	2.6	(0.16)	(0.17)
<u>From Discontinued Operations</u>	1.9		
Basic		0.07	0.89
Diluted		0.06	0.68

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	2016	2015
	\$	Restated
		\$
(Loss) / profit for the year	(1,864,313)	5,498,312
Other comprehensive income		
<i>Items that may be classified subsequently to profit or loss</i>		
Foreign currency translation difference of foreign operations	48,222	(791,886)
Total items that may be classified subsequently to profit or loss	48,222	(791,886)
Total comprehensive (loss) / profit for the year	(1,816,091)	4,706,426
(Loss) / profit attributable to owners of the Company	(1,864,313)	5,498,312
Total comprehensive (loss) / profit attributable to owners of the Company	(1,816,091)	4,706,426

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Share Capital	Translation Reserve	Share-based Payments Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	
Balance at 1 October 2015	39,685,932	(868,900)	551,160	(39,646,135)	(277,943)
Total comprehensive income for the year					
Loss for the year	-	-	-	(1,864,313)	(1,864,313)
Other comprehensive income for the year					
Foreign exchange translation difference on foreign operations	-	48,222	-	-	48,222
Total other comprehensive loss for the year	-	48,222	-	-	48,222
Total comprehensive loss for the year	-	48,222	-	(1,864,313)	(1,816,091)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	3,640,020	-	-	-	3,640,020
Share-based payment transactions	-	-	81,264	-	81,264
Transfer to accumulated losses on lapse of options	-	-	(40,168)	40,168	-
Capital raising costs	(373,022)	-	-	-	(373,022)
Total contributions by and distributions to owners	3,266,998	-	41,096	40,168	3,348,262
Total transactions with owners	3,266,998	-	41,096	40,168	3,348,262
Balance at 30 September 2016	42,952,930	(820,678)	592,256	(41,470,280)	1,254,228

The accompanying notes are an integral part of these financial statements.

PILOT ENERGY LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2015

	Share Capital	Translation Reserve	Share-based Payments Reserve	Other components of equity	Accumulated Losses	Total
	\$	\$	\$	\$	\$	
Balance at 1 October 2014	38,763,813	(77,014)	427,043	1,406,355	(36,016,581)	4,503,616
Adjustments arising from change in accounting policy	-	-	-	-	(10,598,721)	(10,598,721)
Balance at 1 October 2014 (restated)	38,763,813	(77,014)	427,043	1,406,355	(46,615,302)	(6,095,105)
Total comprehensive income for the year						
Profit for the year (restated)	-	-	-	-	5,498,312	5,498,312
Other comprehensive income for the year						
Foreign exchange translation difference on foreign operations	-	(791,886)	-	-	-	(791,886)
Total other comprehensive loss for the year	-	(791,886)	-	-	-	(791,886)
Total comprehensive income for the year	-	(791,886)	-	-	5,498,312	4,706,426
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,056,985	-	-	-	-	1,056,985
Share-based payment transactions	-	-	188,617	-	-	188,617
Transfer to accumulated losses on lapse of options	-	-	(64,500)	-	64,500	-
Transfer to accumulated losses other components of equity relating to prior TSX listing	-	-	-	(1,406,355)	1,406,355	-
Capital raising costs	(134,866)	-	-	-	-	(134,866)
Total contributions by and distributions to owners	922,119	-	124,117	(1,406,355)	1,470,855	1,110,736
Total transactions with owners	-	-	-	-	-	-
Balance at 30 September 2015	39,685,932	(868,900)	551,160	-	(39,646,135)	(277,943)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 \$	2015 Restated \$
Cash flows from operating activities			
Cash paid to suppliers and employees		(1,031,326)	(636,718)
Payments for exploration, evaluation and development		(2,194,884)	(263,227)
Interest received		7,027	11,903
Interest paid		(2,037)	-
Net cash from discontinued operations	1.9	462,786	7,811,242
Net cash (used in) / from operating activities	4.1b	(2,758,434)	6,923,200
Cash flows from investing activities			
Net cash used in investing activities		-	-
Cash flows from financing activities			
Repayments of borrowings		(26,202)	(20,317)
Proceeds from borrowings		25,850	28,800
Proceeds from issue of shares and options	5.1	3,600,020	867,845
Capital raising costs		(393,242)	(102,523)
Net cash used in discontinued operations	1.9	-	(9,643,687)
Net cash from / (used in) financing activities		3,206,426	(8,869,882)
Net increase / (decrease) in cash and cash equivalents		447,992	(1,946,682)
Cash and cash equivalents at 1 October		901,639	2,738,435
Effect of exchange rate fluctuations on cash held		(14,435)	109,886
Cash and cash equivalents at 30 September	4.1a	1,335,196	901,639

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2016

SECTION 1 BASIS OF PREPARATION

Pilot Energy Limited presents its financial statements in a format and style that is relevant and clear to shareholders and other users. In preparing the 2016 financial statements, we have grouped notes into sections under six key categories:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities supporting exploration and evaluation
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

Significant accounting policies specific to one note are included within that note and where possible, wording has been simplified to provide clearer commentary on the financial report of the Group. Accounting policies determined non-significant are not included in the financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

1.1 GENERAL INFORMATION

Pilot Energy Limited (the "Company") is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 2, 55 Carrington Street, Nedlands, WA, 6009.

The Group is primarily involved in the evaluation, acquisition, exploration and development of natural gas and petroleum.

The consolidated financial statements of the Group as at and for the year ended 30 September 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") were authorised for issue by the Board of Directors on 24 November 2016. The financial statements are general purpose financial statements which:

- have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency. Rampart Alaska LLC and Spring River Resources Inc. functional currency is United States dollars;
- adopts all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 October 2015. Refer to note 6.9 for further details; and
- does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

PILOT ENERGY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.2 GOING CONCERN

The directors have prepared the financial report on a going concern basis, which contemplates the realisation of assets and payment of liabilities in the normal course of business. The group has no debt obligations. The Group has a working capital surplus of \$1,186,841 and net cash inflows for the 30 September 2016 financial year of \$448,394 (2015: outflow \$1,946,682). The Group incurred a loss for the year of \$1,830,628 (including \$2,026,236 of exploration expensed in the period) and has net operating cash outflows for the year of \$2,758,434.

The directors are aware that the Group's ability to continue as a going concern, and to fund its exploration and evaluation activities is dependent on the Group securing further working capital sourced from one or more of the following alternatives:

Capital market raising such as:

- Private placement
- Entitlements issue
- Share purchase plan

Borrowings from related or third parties.

Farming out assets to recoup past costs and reduce expenditure obligations.

These conditions indicate a material uncertainty that may cast doubt about the group's ability to continue as a going concern, and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have reviewed the Groups' financial position and forecast cash flows and reasonably expect that the Group will be able to raise additional funds to meet future costs to satisfy its business plans for at least the next 12 months. The directors are therefore of the opinion that the use of going concern basis is appropriate in the circumstances.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the group not continue as a going concern.

1.3 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 September each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability, to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associated is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition charges in the Group's share of net assets of the associates.

When the Group's share of losses in an associate, equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Where a joint arrangement is classified as a joint operation the Group recognises its proportionate share of revenue, expenditure, assets and liabilities.

1.4 FOREIGN CURRENCIES

The primary economic environment in which the Group operates is Australia. The consolidated financial statements are therefore presented in Australian dollars.

Transactions in foreign currencies are initially recorded in Australian dollars at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into Australian dollars at the year end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

1.5 RESEARCH AND DEVELOPMENT EXPENDITURE

The Group undertakes expenditure or activities that are categorised as 'eligible expenditure' under the Research & Development Tax Concession which dependent upon certain criteria may be subject to a tax offset. Under AASB 120, where a tax offset has been received or receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalised, the tax offset shall be deducted from the carrying amount of the asset;
- where a grant is received or receivable in relation to research and development costs which have been charged to the profit and loss account during this or the prior financial year, the tax offset shall be credited to the profit and loss account.

1.6 IMPAIRMENT

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale investments are recognised by reclassifying the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than DTA's, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

1.7 ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included in the following notes:

- *Note 1.2* - *Going concern*
- *Note 2.5* - *Recognition of tax losses*
- *Note 6.1* - *Share-based payments*

1.8. VOLUNTARY CHANGE OF ACCOUNTING POLICY

The consolidated financial statements have been prepared incorporating retrospective application of a voluntary change in accounting policy relating to exploration and evaluation expenditure.

The new exploration and evaluation expenditure accounting policy is to expense all exploration and evaluation expenditure as incurred.

The previous accounting policy was that expenditure on exploration and evaluation activities in relation to areas of interest which had not reached a stage which permitted reasonable assessment of the existence or otherwise of economically recoverable reserves were capitalised as incurred.

The new accounting policy was adopted on 30 September 2016 and has been applied retrospectively. The Directors believe that the change in accounting policy will provide more relevant information and no less reliable information to users of the consolidated financial statements. Both the previous and the new accounting policy are compliant with AASB 6 Exploration for Evaluation of Minerals Resources, which permits a choice of accounting policy.

The impact of the change in accounting policy on the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flow is included in the tables on the following page.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.8. VOLUNTARY CHANGE OF ACCOUNTING POLICY (continued)

This voluntary change involves restating the following balances:

	30 September 2015 Previous Policy \$	Increase/ (Decrease) \$	30 September 2015 Restated \$	1 October 2014 Previous Policy \$	Increase/ (Decrease) \$	1 October 2014 Restated \$
Consolidated statement of financial position (extract)						
Capitalised tenement acquisition costs	462,249	(462,249)	-	10,598,721	10,598,721	-
Net assets / (liabilities)	184,306	(462,249)	(277,943)	4,503,616	(10,598,721)	(6,095,105)
Accumulated losses	(40,355,130)	708,995	(39,646,135)	(36,016,581)	(10,598,721)	(46,615,302)
Total equity	184,306	(462,249)	(277,943)	4,503,616	(10,598,721)	(6,095,105)
Consolidated statement of profit or loss and comprehensive income (extract)						
Exploration expenditure impaired	(215,425)	215,425	-			
Exploration expensed	-	(477,378)	(477,378)			
Loss before income tax	(1,046,902)	(261,953)	(1,308,855)			
Income tax benefit / expense	-	-	-			
Loss for the year	(1,046,902)	(261,953)	(1,308,855)			
Loss per share						
Basic and diluted (cents per share)	(0.76)	1.50	0.74			

Basic and diluted loss per share for the prior year has also been restated.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.8. VOLUNTARY CHANGE OF ACCOUNTING POLICY (continued)

This voluntary change involves restating the following balances:

	30 Sep 2015 Previous Policy \$	Increase/ (Decrease) \$	30 Sep 2015 Restated \$
<i>Consolidated statement of Cash Flows (extract)</i>			
Payments for exploration and evaluation expenditure	-	(263,227)	(263,227)
Net cash from discontinued operations	8,088,960	(277,718)	7,811,242
Net cash from operating activities	7,464,145	(540,945)	(6,923,200)
Payments for exploration and evaluation expenditure capitalised	(263,227)	263,227	-
Net cash from discontinued operations	23,789	277,718	301,507
Net cash used in investing activities	(540,945)	540,945	-

Basic and diluted loss per share for the prior year has also been restated.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.9 DISCONTINUED OPERATIONS

During the 2015 financial year, management decided to discontinue its investment in the Alaskan Western Block leases, due to a commercial dispute with joint venture partner Royale Energy. Consequently, assets and liabilities allocable to Rampart Alaska LLC were classified as a disposal group. Expenses and losses relating to the discontinuation of this subgroup have been eliminated from profit or loss from the Group's continuing operations and are shown as a single line item on the face of the consolidated statement of profit or loss and other comprehensive income (see loss for the year from discontinued operations).

Operating loss of Rampart Alaska LLC from re-measurement of the assets and liabilities classified as discontinued operations is summarised as follows:

		2016	2015
	Note	\$	Restated
			\$
Other income	2.2	475,285	8,835,924
Expenses			
Administrative expenses		(1,426)	(6,140)
Professional fees		(159,310)	(587,878)
Finance expenses	2.4	-	(1,363,192)
Liabilities forgiven / (exploration expensed)		1,046,326	(71,547)
Profit for the year from discontinued operations		1,360,875	6,807,167
Loss per share			
Basic and diluted (cents per share)		0.07	0.90

The carrying amounts of assets and liabilities in this disposal group are summarised as follows:

		2016	2015
	Note	\$	Restated
			\$
Current assets			
Cash and cash equivalents	4.1	-	391,179
Trade and other receivables	4.2	-	215,023
Assets classified as discontinued		-	606,202
Current liabilities			
Trade and other payables	4.3	-	1,163,063
Liabilities classified as discontinued		-	1,163,063

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.9 DISCONTINUED OPERATIONS (continued)

Cash flows generated from the disposal group are summarised below:

	Note	2016 \$	2015 Restated \$
Royale Energy mutual release settlement fee		678,979	-
Alaskan tax credit		-	8,645,230
Payments for exploration and evaluation		-	(277,718)
Cash paid to suppliers and employees		(216,193)	(556,270)
Net cash from operating activities		462,786	7,811,242
Net cash (used in) / from investing activities		-	-
Repayments of borrowings		-	(9,531,478)
Payment of transaction costs related to loans		-	(112,209)
Net cash used in financing activities		-	(9,643,687)
Cash flows from discontinued operations		462,786	(1,832,445)
Cash and cash equivalents at 1 October		(461,057)	1,261,502
Effect of exchange rate fluctuations on cash held		(1,729)	109,886
Cash and cash equivalents at 30 September	4.1a	-	(461,057)

SECTION 2 RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating profit, taxation and earnings per share.

Key estimates and assumptions in this section

Deferred taxation

The Group has unrecognised carry forward tax losses which can be utilised against future taxable profits. Given that the Group is not yet in production, the tax asset has not yet been recognised.

2.1 OPERATING SEGMENTS

Information about reportable segments

The Group has identified its operating segments on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group currently operates in one operating segment being oil and gas exploration and evaluation.

Reportable segments disclosed are based on aggregating tenements where the evaluation and exploration interests are considered to form a single project. This is indicated by:

- having the same ownership structure;
- exploration being focused on the same petroleum resource or type of petroleum resource; and
- exploration programs targeting the tenements as a group, indicated by the use of the same exploration team, shared geological data and knowledge across the tenements.

Unless otherwise stated, all amounts reported to the Board of Directors as the chief decision maker with respect to operating tenements, are determined in accordance with *AASB 8 Operating Segments*.

Reconciliation of reportable segment loss, assets and liabilities and other material items

	2016	2015
	\$	Restated \$
Loss before income tax		
Total loss for reportable segments	(2,026,236)	(477,378)
Central administration and directors' remuneration	(1,203,942)	(841,481)
Finance expense	(2,037)	(1,899)
Finance income	7,027	11,903
Consolidated loss before income tax from continuing operations	(3,225,188)	(1,308,855)
Assets		
Total assets for reportable segments	-	-
Cash and cash equivalents	1,335,196	510,460
Other assets	123,387	132,786
Assets from discontinued operations	-	606,202
Consolidated total assets	1,458,583	1,249,448

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 OPERATING SEGMENTS (continued)

Reconciliation of reportable segment loss, assets and liabilities and other material items (continued)

	2016	2015
	\$	\$
Liabilities		
Total liabilities for reportable segments	(13,423)	(222,071)
Borrowings	(8,130)	(8,482)
Other liabilities	(182,802)	(133,775)
Liabilities from discontinued operations	-	(1,163,063)
Consolidated total liabilities	(204,355)	(1,527,391)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 September 2015.

2.2 OTHER INCOME

Accounting Policy

Other income is recognised when the amount can be reliably measured and control of the right to receive the income be passed to the Group.

	2016	2015
Note	\$	\$
<u>Continuing operations</u>		
Net foreign exchange gains	11,981	-
<u>Discontinued operations</u>		
Alaska tax credit (i)	-	8,645,230
Royale Energy mutual release settlement (ii)	475,285	190,694
	475,285	8,835,924
	487,266	8,835,924

- (i) During the 2015 year the Group received \$8,645,230 (US\$6,800,338) from the Alaskan Tax Authority as reimbursement of up to 85% of allowable exploration expenditure incurred in the North Slope.
- (ii) As part of the close-out process of the dispute with Royale Energy, an initial payment of \$190,694 (US\$150,000) was recognised in the consolidated statement of profit or loss during the 2015 year. In December 2015, the Company received \$475,285 (US\$ 350,000) as final settlement of the dispute.

2.3 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

Accounting Policy

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

Share-based payments

The policy relating to share-based payments is set out in note 6.1.

The table below sets out personnel costs expensed during the year.

	Note	2016	2015
		\$	\$
Directors remuneration	6.3	544,467	294,202
Payment in lieu of modified options		80,000	-
Other wages and salaries		34,594	46,299
Other associated personnel expenses		-	264
Total personnel expenses		659,061	340,765

Further information relating to directors' remuneration is set out in note 6.3.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4 NET FINANCE COSTS

Accounting Policy

Net finance costs comprise income on funds invested and interest expense on borrowings. Interest income and interest expense on short term borrowings is recognised as it accrues in profit or loss, using the effective interest method.

	2016	2015
	\$	\$
Interest income on bank deposits	4,219	11,903
Interest income on director loan	2,808	-
	7,027	11,903
Interest expense on financial liabilities measured at amortised cost		
<u>Continuing operations</u>		
Interest expense and finance costs on premium funding	(2,037)	(1,899)
<u>Discontinued operations</u>		
Interest expense on borrowings	-	(886,250)
Transaction costs on ACES facility	-	(476,942)
	-	(1,363,192)
	(2,037)	(1,365,091)
Net finance income / (expense) recognised in profit or loss	4,990	(1,353,188)

2.5 INCOME TAX EXPENSE

Accounting Policy

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(a) Amounts recognised in profit or loss

	2016 \$	2015 \$
Current tax benefit		
Current period	-	-
Deferred tax benefit		
Origination and reversal of temporary differences	-	-
Total income tax benefit	-	-

(b) Reconciliation of effective tax rate

	2016 \$	2015 \$
Loss for the period	(1,864,313)	(5,809,404)
Total income tax expense	-	-
Profit / (Loss) excluding income tax	(1,864,313)	(5,809,404)
Income tax using the Group's domestic tax rate of 28.5% (2015: 30%)	(531,329)	(1,742,821)
Tax rate differential for overseas subsidiaries	88,457	(235,000)
Non-assessable non-exempt expenses	(476,447)	-
Non-deductible expenses	87,699	81,619
Tax losses carried forward and other timing differences not brought to account	831,620	1,896,202
	-	-

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.5 INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate (continued)

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to \$8,465,780 (2015: \$7,678,513) attributed to tax losses have not been brought to account.

The benefit of these tax losses will only be obtained if:

- i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- ii) the conditions for deductibility imposed by tax legalisation continue to be complied with;
- iii) no changes in tax legislation adversely affect the Group in realising the benefit; and
- iv) satisfaction of either the continuity of ownership or the same business test.

(c) Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	2016	2015
	\$	\$
Deferred tax liabilities (DTLs)		
Prepaid expenditure	14,992	7,257
Capitalised exploration	-	138,674
Set-off against DTAs	(14,992)	(145,931)
	-	-
Deferred tax assets (DTAs)		
Share issue costs	161,285	104,353
Capitalised exploration	96,761	-
Carry forward tax losses	8,214,205	7,720,091
Other	8,521	-
Set-off against DTLs	(14,992)	(145,931)
DTAs not brought to account	8,465,780	7,678,513

There were no unregistered deferred tax liabilities.

The Group does not recognise deferred tax.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.6 LOSS PER SHARE

(a) Basic loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

Loss attributable to owners of Pilot Energy Limited used to calculate loss per share

	2016	2015
	\$	Restated \$
Loss from continuing operations	(3,225,188)	(1,308,855)
Profit from discontinued operations	1,360,875	6,807,167
(Loss) / profit for the year	<u>(1,864,313)</u>	<u>5,498,312</u>

Weighted average number of ordinary shares used as the denominator

	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	2,020,396,615	760,597,562
Adjustments for calculation of diluted earnings per share:		
Weighted average number of dilutive options and rights	-	237,962,691
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,020,396,615</u>	<u>998,560,254</u>

As the Company is in a loss position there is no diluted EPS calculated.

SECTION 3 ASSETS AND LIABILITIES SUPPORTING EXPLORATION AND EVALUATION

This section focuses on the assets and liabilities which form the core of the ongoing business, including those assets and liabilities which support ongoing exploration and evaluation as well as capital and other commitments existing at the year end.

3.1 CAPITAL AND OTHER COMMITMENTS

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the requirements specified by the State Government. These obligations are subject to negotiation when application for a petroleum exploration lease is made and at other times. These commitments are not provided for in the financial report and are payable as follows:

	2016	2015
	\$	\$
Not later than one year	1,320,580	1,720,183
Between one and five years	60,000	8,516,743
	1,380,580	10,236,926

Other commitments

	2016	2015
	\$	\$
Office rent		
Not later than one year	8,952	13,041
Between one and five years	-	10,071
	8,952	23,112

SECTION 4 WORKING CAPITAL DISCLOSURES

This section focuses on the cash funding available to the Group and working capital position at year end.

4.1 CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

(a) Reconciliation of cash and cash equivalents

	2016	2015
	\$	\$
Cash and cash equivalents held in continuing operations	1,335,196	510,460
Cash and cash equivalents held in discontinued operations	-	391,179
Cash and cash equivalents in the statement of cash flows	1,335,196	901,639

(b) Reconciliation of cash flows from operating activities

		2016	2015
		\$	Restated
	Note		\$
Cash flows from operating activities			
(Loss) / profit for the period		(1,864,313)	5,498,312
Adjustments for:			
Equity-settled share-based payment transactions	6.1	121,264	56,492
Finance expense	2.4	-	1,363,192
Depreciation		1,515	3,264
Net profit on foreign exchange translation		12,705	-
Change in other receivables		215,595	(184,742)
Change in prepayments		(4,017)	57,605
Change in trade and other payables		(1,260,645)	129,077
Change in employee benefits		19,462	-
Net Cash (used in) / from operating activities		(2,758,434)	6,923,200

4.2 OTHER RECEIVABLES

Accounting Policy

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the consolidated statement of profit or loss.

	2016	2015
	\$	\$
Continuing operations		
GST and PAYG receivable	16,102	36,772
Amounts due from a director	-	52,300
Deposits and bonds	66,666	5,597
	82,768	94,669
Discontinued operations		
Royale Energy mutual release settlement	-	215,023
	82,768	309,692
Current		
Continuing operations	16,102	89,072
Discontinued operations	-	215,023
	16,102	304,095
Non-current		
Continuing operations	66,666	5,597
	82,768	309,692

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3 TRADE AND OTHER PAYABLES

Accounting Policy

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

	2016	2015
	\$	\$
Current		
<u>Continuing operations</u>		
Trade payables	117,198	321,046
Non-trade payables and accrued expenses	59,565	34,800
	176,763	355,846
<u>Discontinued operations</u>		
Trade payables	-	1,163,063
	176,763	1,518,909

SECTION 5 EQUITY AND FUNDING

This section focuses on the debt and equity funding available to the Group at year end, most notably covering share capital and loans and borrowings.

5.1 CAPITAL AND RESERVES

Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	2016	2015	2016	2015
On issue at 1 October	1,585,476,834	419,492,277	39,685,932	38,763,813
Issue of fully paid ordinary shares to allottees of July 2014 placement for nil consideration	-	109,000,000	-	-
Placement of a 2:1 renounceable rights issue at 0.1 cent each	-	867,845,000	-	867,845
Issue of fully paid ordinary shares at 0.1 cents each in satisfaction of consulting fees	-	136,839,557	-	136,840
Issue of fully paid ordinary shares at 0.1 cents each to a director	-	52,300,000	-	52,300
Issue of fully paid ordinary shares at 0.2 cents each in consideration for acquisition of EP437	20,000,000	-	40,000	-
Placement of fully paid ordinary shares at 0.2 cents each	400,000,000	-	800,000	-
Placement of fully paid ordinary shares at 0.3 cents each	933,340,000	-	2,800,020	-
Capital raising costs	-	-	(373,022)	(134,866)
On issue at 30 September	2,938,816,834	1,585,476,834	42,952,930	39,685,932

The holders of ordinary shares are entitled to receive dividends as declared from time and are entitled to one vote per share at meetings of the Group. Option holders cannot participate in any new share issues by the Group without exercising their options.

In the event of a winding up of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

All issued shares are fully paid.

The Company has also share options on issue (see note 6.1).

5.1 CAPITAL AND RESERVES (continued)

Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve represents the fair value of performance shares and options to be issued to directors, consultants and employees for goods or services received or acquired. This reserve will be transferred to capital once the shares have been issued.

Translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

SECTION 6 OTHER DISCLOSURES

The disclosures in this section focuses on share schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

Key estimates and assumptions in this section

Share-based payments

The fair value of share options is measured using the binomial options pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends (if any) and the risk free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

6.1 SHARE-BASED PAYMENT PLANS

Accounting Policy

The share option programme allows Group employees to receive rights to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the fair value of an employee share option has been recognised as a share-based payment and the option lapses on expiry, the total amount of the share-based payment expense is transferred from the share-based payment reserve to accumulated losses.

The share-based payment expense included within the consolidated statement of comprehensive profit or loss can be broken down as follows:

	2016	2015
	\$	\$
(a) Expensed in personnel expenses (director remuneration)		
Performance rights issued to directors	-	17,692
Options issued to directors	59,968	38,800
	59,968	56,492
(b) Expensed in professional fees		
Options issued to advisors of the company	5,696	-
(c) Expensed in exploration expenditure		
Options issued pursuant to acquisition of EP437	15,600	-
Shares issued pursuant to acquisition of EP437	40,000	-
	55,600	-
	121,264	56,492

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

- (a) At a general meeting held on 23 June 2016, shareholders approved the modification of 80,000,000 options originally issued to the directors of the company on 25 May 2015. The replacement options have an exercise price of 0.4 cents each and expire on 31 December 2019. At the same meeting, shareholders approved the issue of 40,000,000 options to new directors of the board with an exercise price of 0.4 cents each, also expiring on 31 December 2019. The fair value of these options was valued using the Black-Scholes model using the following assumptions:

	Modified options	New options
Grant date:	25 May 2015	23 June 2016
Share price at grant date (cents):	0.2	0.2
Risk free rate:	1.62%	1.62%
Expiry period:	4.61 years	3.52 years
Fair value per option (cents):	0.16	0.14

- (b) On 23 June 2016, the board resolved to issue of 20,000,000 options to an advisor to the board with an exercise price of 0.4 cents each, expiring on 31 December 2019. The fair value of these options was valued using the Black-Scholes model the same assumptions for the new options issued to the directors in (a) above.
- (c) On 17 November 2015, the company acquired a 13.058% interest in petroleum permit EP437 by the issue of 20,000,000 shares and 20,000,000 options exercisable at 0.2 cents each and expiring on 30 June 2019. The value of the shares was \$40,000 and the value of the options was \$15,600. The fair value of these options was valued using the share price barrier option valuation model using the following assumptions:

Grant date:	17 November 2016
Share price at grant date (cents):	0.1
Risk free rate:	2.13%
Expiry period:	3.62 years
Fair value per option (cents):	0.78

Equity-settled share option programme

The Company adopted an Employee Share Options Scheme (ESOS) effective 23 February 2010. Under the ESOS, the Company may grant options and rights to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes option pricing model.

The options and rights vest on a time scale as specified in the ESOS and is granted for no consideration. Options and rights granted under the plan carry no dividend or voting rights. When exercisable, each option is converted into one ordinary share. The maximum term of an option is 5 years from grant date and are settled in cash.

Options may not be transferred other than to an associate of the holder.

PILOT ENERGY LIMITED
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6.1 SHARE-BASED PAYMENT PLANS (continued)

Options

At 30 September 2016, a summary of the Group options issued and not exercised are as follows. Options are settled by the physical delivery of shares:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Exercised during the year	Expired / modified during the year	Balance at the end of the year	Vested and exercisable at the end of the year
26-Sep-13	27-Sep-13	30-Sep-16	12.0	3,333,334	-	-	(3,333,334)	-	-
26-Sep-13	06-Dec-13	31-Oct-16	12.0	12,500,000	-	-	-	12,500,000	12,500,000
08-Oct-14	17-Oct-14	30-Sep-17	3.0	10,000,000	-	-	-	10,000,000	10,000,000
06-Aug-15	07-Aug-15	30-Jun-19	0.2	105,000,000	-	-	(80,000,000)	25,000,000	25,000,000
17-Nov-15	18-Nov-15	30-Jun-19	2.0	-	20,000,000	-	-	20,000,000	20,000,000
23-Jun-16	23-Jun-17	31-Dec-19	0.4	-	70,000,000	-	-	70,000,000	-
23-Jun-16	23-Jun-18	31-Dec-19	0.4	-	70,000,000	-	-	70,000,000	-
Total				130,833,334	160,000,000	-	(83,333,334)	207,500,000	67,500,000
Weighted Average Exercise Price (cents)				1.8	0.4	-	(0.7)	1.2	

During the year ended 30 September 2016, 3,333,334 options expired and 80,000,000 options were modified (2015: nil options expired or were modified).

At the exercise date, the weighted average remaining contractual life of options outstanding at year end was 2.84 years (2015: 3.29 years).

The weighted average exercise price of outstanding shares at the end of the reporting period was 1.2 cents (2015: 1.8 cents).

PILOT ENERGY LIMITED
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6.1 SHARE-BASED PAYMENT PLANS (continued)

Options (continued)

At 30 September 2015, a summary of the Group options issued and not exercised are as follows. Options are settled by the physical delivery of shares:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Exercised during the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
26-Sep-13	27-Sep-13	30-Sep-16	12.0	3,333,334	-	-	-	3,333,334	3,333,334
26-Sep-13	06-Dec-13	31-Oct-16	12.0	12,500,000	-	-	-	12,500,000	12,500,000
08-Oct-14	17-Oct-14	30-Sep-17	3.0	-	10,000,000	-	-	10,000,000	-
06-Aug-15	07-Aug-15	30-Jun-19	0.2	-	105,000,000	-	-	105,000,000	-
Total				15,833,334	115,000,000	-	-	130,833,334	15,833,334
Weighted Average Exercise Price (cents)				12.0	0.4	-	-	1.8	

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Performance rights

At 30 September 2016, a summary of the Group's performance rights issued and not exercised are as follows:

Grant date	End of performance period	Vesting Year	Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
01-Jul-14	30-Jun-18	2015	15,000,000	-	-	(5,000,000)	10,000,000	-
01-Jul-14	30-Jun-18	2016	15,000,000	-	-	(5,000,000)	10,000,000	-
01-Jul-14	30-Jun-18	2017	15,000,000	-	-	(5,000,000)	10,000,000	-
			45,000,000	-	-	(15,000,000)	30,000,000	-

The above grants will vest subject to the satisfaction of the following vesting hurdles:

Subject to remaining in tenure as a director of the Company:

- 5,000,000 to vest on 30 June 2015;
- 5,000,000 to vest on 30 June 2016; and
- 5,000,000 to vest on 30 June 2017 (Tenure Vested Performance Rights).

Tranche 1, 5,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 3.5 cents for five consecutive days prior to Expiry Date.

Tranche 2, 10,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 5 cents for five consecutive days prior to Expiry Date – less any performance rights that may have converted under Hurdle 2.

Tranche 3, 15,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 8 cents for five consecutive days prior to Expiry Date – less any performance rights that may have converted under Hurdle 3.

The rights vested 100% on 30 September 2015. Each PR represents a right to be issued one ordinary share at the end of the performance period. No exercise price will be payable and the applicable performance hurdles must be met in order to be eligible to receive the shares.

Following the resignation of Conrad Todd, 15,000,000 performance rights were forfeited (2015: nil forfeited)

6.2 FINANCIAL RISK MANAGEMENT

Accounting Policy

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with AASB 139 *Financial Instruments*:

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Financial liabilities measured at amortised cost – separately disclosed as borrowings and trade and other payables

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and de-recognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Overview

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

The carrying amount of financial assets represents the maximum credit exposure.

Cash and cash equivalents

The Group held cash and cash equivalents of \$1,335,196 at 30 September 2016 (2015: \$901,639). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

6.2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Other receivables

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

At 30 September 2016, the maximum exposure to credit risk for other receivables by geographic region was as follows:

	Carrying amount	
	2016	2015
	\$	\$
Australia	82,768	94,669
USA	-	215,023
	82,768	309,692

Presently, the Group undertakes exploration and evaluation activities exclusively in Australia. As the Group is not trading there are no financial assets past due and there is no management of credit risk through performing an aging analysis; therefore an aging analysis has not been disclosed.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities excluding the impact of netting arrangements:

	Carrying amount	Contractual cash flows	12 months or less
	\$	\$	\$
30 September 2016			
Non-derivative financial liabilities			
Trade and other payables	176,763	176,763	176,763
Salary and superannuation accrual	15,615	15,615	15,615
Premium funding facility	8,131	8,345	8,345
	200,509	200,723	200,723
30 September 2015			
Non-derivative financial liabilities			
Trade and other payables	1,518,909	1,518,909	1,518,909
Premium funding facility	8,482	8,707	8,707
	1,527,391	1,527,616	1,527,616

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change to the manner in which the Group manages market risk from the previous year.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2016	2015	2016	2015
	\$	\$	\$	\$
US dollar	204,868	606,202	-	1,163,063

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD). The following table details the Group's sensitivity to a 10% (30 September 2015: 20%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the yearend for a 10% (30 September 2015: 20%) change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

	Impact on profit or loss	
	2016	2015
	\$	\$
If AUD strengthens by 10% (30 September 2015: 20%)		
USD	(18,625)	92,810
If AUD weakens by 10% (30 September 2015: 20%)		
USD	22,763	(139,216)

There would be no impact on other equity of the company and the Group.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk

The Group only has interest rate risk relating to its funds on deposit with banking institutions. Accordingly, the Group does not hedge its interest rate risk exposure.

Exposure to interest rate risk

The interest rate profile of the Group's interest bearing financial instruments as reported to management of the Group is as follows:

Carrying amount	
2016	2015
\$	\$
1,335,196	901,639

Variable rate instruments

Cash and cash equivalents

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 25 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 30 September 2015.

Profit or loss	
25 bp increase	25 bp decrease
\$	\$
2,826	(2,826)
2,826	(2,826)
100 bp increase	100 bp decrease
\$	\$
5,105	(5,105)
5,105	(5,105)

30 September 2016

Variable rate instruments

Cash flow sensitivity

30 September 2015

Variable rate instruments

Cash flow sensitivity

At the reporting date the Group did not hold any variable rate financial liabilities.

PILOT ENERGY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurable date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, accruals and employee entitlements have been excluded from the above analysis as their fair values are equal to the carrying values.

6.3 RELATED PARTIES

Key management personnel compensation included in 'personnel expenses' (note 2.3) and 'share-based payments' (note 6.1), comprises the following:

	Note	2016 \$	2015 \$
Short term employee benefits		477,153	237,710
Post-employment benefits		7,346	-
Share-based payments – options and rights	6.1	59,968	56,492
	2.3	544,467	294,202

Individual directors and executives' compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' report in section 14.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.3 RELATED PARTIES (continued)

Other key management personnel transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies.

A number of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Transactions value		Balance outstanding		
		year ended 30 September		as at 30 September		
		2016	2015	2016	2015	
		\$	\$	\$	\$	
<i>Key management</i>	<i>Transaction</i>	Note				
Iain Smith	Consulting fees	(i)	-	58,767	16,500	33,000
Gavin Harper	Consulting fees	(ii)	9,800	4,800	5,500	-
Conrad Todd	Consulting fees	(iii)	53,438	33,938	3,667	12,077
Rory McGoldrick	Consulting fees	(iv)	34,750	16,200	6,866	13,366
				32,533	58,443	

- (i) The Group used the consulting services of Basis Commercial Pty Ltd, a company associated with Iain Smith, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;
- (ii) The Group used the consulting services of New Energy Solutions Pty Ltd, a company associated with Gavin Harper, in relation to advice on certain management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;
- (iii) The Group used the consulting services of The Todd Family Trust, a company associated with Conrad Todd, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;
- (iv) The Group used the consulting services of Rory McGoldrick, in relation to advice on certain legal and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.4 SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group	
				2016 %	2015 %
Rampart Energy (USA) Pty Ltd	Corporate	Australia	30 September	100	100
Rampart Alaska LLC	Dormant	USA	31 December	100	100
Spring River Resources	Dormant	USA	31 December	100	100

6.5 JOINT ARRANGEMENTS

On 12 April 2016, Pilot Energy acquired a 13.058% interest in exploration permit EP437. Consideration for acquiring this investment was:

- 20 million 0.2 cent options, expiring 30 June 2019, with a fair value of \$15,600;
- 20 million 0.2 cent fully paid shares issued to Caracal; and
- \$15,000 cash

Under the terms of the agreement, Pilot will be responsible for all ongoing expenditures in relation to the permit interest and will be entitled to all future income, profits, rights and benefits in relation to the permit interest.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.6 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 30 September 2016, the parent entity of the Group was Pilot Energy Limited.

	2016	2015
	\$	Restated \$
Result of the parent entity		
Loss for the year	(2,372,952)	(5,135,138)
Other comprehensive income	-	-
Total comprehensive loss for the year	(2,372,952)	(5,135,138)
Financial position of parent entity at year end		
Current assets	1,391,196	635,413
Total assets	1,458,583	643,246
Current liabilities	204,355	364,329
Total liabilities	204,355	364,329
Total equity of the parent entity comprising of:		
Share capital	42,952,930	39,685,932
Reserves	592,256	551,159
Accumulated losses	(42,290,958)	(39,958,174)
Total equity	1,254,228	278,917

6.7 SUBSEQUENT EVENTS

There have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.8 AUDITORS' REMUNERATION

	2016	2015
	\$	\$
BDO Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	32,024	-
Total remuneration for audit and other assurance services	32,024	-
<i>Taxation services</i>		
Tax compliance services	7,100	-
Tax advice on PRRT reporting	4,100	-
Advice on tax effect accounting	2,652	-
Total remuneration for taxation services	13,852	-
Total remuneration of BDO Australia	45,876	-
BDO Overseas		
<i>Taxation services</i>		
Tax compliance services	3,550	4,195
Total remuneration of overseas BDO firms	3,550	4,195
Non-BDO audit firms		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	8,564	22,894
Total remuneration for audit and other assurance services	8,564	22,894
<i>Taxation services</i>		
Tax compliance services	-	(1,971)
Tax advice on NSW Office of State Revenue payroll tax audit	-	1,000
Total remuneration for taxation services	-	(971)
<i>Other services</i>		
General accounts preparation	-	61,606
Total remuneration for other services	-	61,606
Total remuneration of non-BDO audit firms	8,564	83,529
TOTAL AUDITORS' REMUNERATION	57,990	87,724

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. These assignments are principally tax advice, or where BDO is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

6.9 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Except for the changes below, the Group has consistently applied the accounting policies set out in the notes to the consolidated financial statements to all periods presented in these consolidated financial statements.

Exploration and evaluation assets

The Board resolved to change the exploration and development accounting policy with effect from 1 October 2015 such that current and future exploration is expensed through profit and loss. Comparative figures have been represented to reflect the change in accounting policy (see note 1.8).

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 September 2015.

- (a) *AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

The changes above did not have a material impact on the Group.

PILOT ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 September 2016.

Reference	Title	Application date of standard	Application date for the Group
		Periods beginning on or after	
AASB 9	Financial Instruments	1 January 2018	1 October 2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)		
AASB 15	Revenue from Contracts with Customers	1 January 2018	1 October 2018
AASB 16	Leases	1 January 2019	1 October 2019
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	1 October 2016
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 October 2016
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	1 January 2016	1 October 2016
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	1 January 2018	1 October 2018
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 January 2016	1 October 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	1 October 2016
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	1 October 2017

There will be no significant impact on the Group's results and disclosures on the adoption of the above standards.

Reference	Title	Application date of standard	Application date for the Group
		Periods beginning on or after	
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 October 2017

The impact of the above standard has not yet been assessed by management.

DIRECTORS' DECLARATION

- 1 In the opinion of the directors of Pilot Energy Limited (the "Group"):
 - (a) the consolidated financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 September 2016 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) as set out in note 1.2, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- 2 The directors draw attention to note 1.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Perth this 24th day of November 2016.



IAIN SMITH
Managing Director

INDEPENDENT AUDITOR'S REPORT

To the members of Pilot Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Pilot Energy Limited, which comprises the consolidated statement of financial position as at 30 September 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1.1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pilot Energy Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Pilot Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 September 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1.2 in the financial report which describes the conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 32 of the directors' report for the year ended 30 September 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Pilot Energy Limited for the year ended 30 September 2016 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd



Dean Just
Director

Perth, 24 November 2016

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 31 October 2016:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	199	82,245	-
1,001 - 5,000	226	525,929	0.02
5,001 - 10,000	135	980,776	0.03
10,001 - 100,000	371	16,740,437	0.57
100,001 and over	810	2,920,487,447	99.38
Total	1,741	2,938,816,834	100.00

There were 1,103 holders of less than a marketable parcel of ordinary shares.

2. Substantial shareholders

The substantial shareholders are set out below:

Shareholders	Number of Shares
GS Energy Pty Ltd	740,747,000
Billion Power Capital Investment Pty Ltd	370,380,000
Sunpex International Limited	185,187,000

3. Voting rights

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

Options and rights

No voting rights.

4. Options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
17-Oct-14	10,000,000	4	30-Sep-17	3.0
07-Aug-15	25,000,000	7	30-Jun-19	0.2
17-Nov-15	20,000,000	1	30-Jun-19	0.2
23-Jun-16	140,000,000	7	31-Dec-19	0.4

There are 195,000,000 options issued to 19 holders under the Pilot Energy long-term option plan to take up ordinary shares.

PILOT ENERGY LIMITED

STOCK EXCHANGE INFORMATION

5. Rights

There are 30,000,000 Performance Rights issued to 2 directors under the Pilot Energy long term incentive plan to take up ordinary shares.

6. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
GS Energy Pty Ltd	740,747,000	25.21
Billion Power Capital Investment Limited	370,380,000	12.60
Sunpex International Limited	185,187,000	6.30
Pershing Australia Nominees Pty Ltd <Argonaut Account>	99,000,000	3.37
Rosetti Super Holdings Pty Ltd <Rosetti Super Fund A/C>	86,270,000	2.94
Mr Iain Peter Smith	60,074,839	2.04
Petra Cotes Pty Ltd <Macondo A/C>	48,450,000	1.65
BT Portfolio Services Limited <G & S Harper Family SF A/C>	46,666,666	1.59
Mr Gavin William Harper	32,393,452	1.10
Mr Sebastian Robert Moore <Sebastian Moore Invest A/C>	30,000,000	1.02
Austar Nominees Pty Ltd <The Wang Family A/C>	25,946,000	0.88
Sergent Holdings Pty Ltd <Sergen Family S/F A/C>	22,180,626	0.75
Caracal Exploration Pty Ltd	20,000,000	0.68
Mr Peter Hadleigh Reid	20,000,000	0.68
Tiong Sing Tang	20,000,000	0.68
Mr Mark Andrew Tkocz & Ms Susan Elizabeth Evans <Tkocz Super Fund A/C>	20,000,000	0.68
Mr Shadi Sayadi	18,497,821	0.63
Dr Dennis Jonathan Kar Que Lum <Dennis Jonathan Kar Que A/C>	15,550,004	0.53
AR Jason Pty Ltd <A R Jason Family A/C>	15,000,000	0.51
Mr Graham Frederick Farrell	15,000,000	0.51

PILOT ENERGY LIMITED STOCK EXCHANGE INFORMATION

7. Permits listing

Permit Location	Permit Numbers	Status	Percentage Interest
South Perth Basin	EP 416	Granted	60%
South Perth Basin	EP 480	Granted	60%
North Perth Basin	EP 437	Granted	13.058%
Offshore WA	WA 503-P	Granted	80%
Offshore WA	WA 507-P	Granted	80%
Offshore WA	WA-481-P	Granted	60%
