

Announcement to ASX

30 September, 2015

## CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

Now that Pilot Energy has settled its legal dispute with Royale Energy over the Alaskan Western Block project (ASX announcement of 28 September 2015), your company is well positioned to build substantial shareholder value over the near to mid term.

The Alaskan farmin agreement and Joint Operating Agreement with Royale Energy of May 2013 (entered in to by previous management) provided the company with no effective control of the magnitude and timing of exploration expenditure by the Operator; 100% of which was to be funded by the company. The exploration schedule defined by the agreements did not allow sufficient time for the company to bring in a farmin partner post-seismic interpretation and pre-drilling, which ultimately led to the dispute with Royale Energy.

After a protracted and difficult 12 months of litigation and negotiations, your Board is pleased to have reached a settlement with Royale Energy that terminates all current and future legal claims, and enables Pilot Energy to receive up to US\$500,000 for its interest in the Western Block.

***While the prevailing low oil price presents significant challenges for the industry at large, the current environment provides a unique opportunity to lay the foundations of a leading junior oil and gas player.***

In parallel with resolving the Alaskan dispute, over the past 12 months the new Board of Pilot Energy has been diligently working to restore value in the company by acquiring three new exploration projects in Western Australia.

In each case Pilot Energy has secured its interest on favorable commercial terms. Pilot Energy will be Operator, and as such will be in control of the timing and magnitude of exploration expenditure. The company holds a majority working interest in all three projects, and has factored in sufficient time to add value through low cost desktop studies with a view to attracting farmin partners to fund future exploration.

The company has avoided costly drilling commitments, and has been able to defer significant expenditure while meeting project commitments. Finally with each acquisition Pilot Energy has added significant prospective resources to its asset portfolio.

***Previously your company was focused on only a single project, with major funding commitments that it was unable to meet. Pilot Energy now provides investors with exposure to three high quality, potential company-making assets, all with material working interests, sensible commitments and drilling optionality.***

In the Perth Basin, Pilot Energy has secured a 60% interest in exploration permits EP416 and EP480, partnering with basin expert Empire Oil & Gas. By looking to the south of the basin Pilot Energy has been able to take an early position in these large permits, close to local gas infrastructure and demand. Importantly the geology of this area offers comparable exploration plays to those that have been so successful to the north in recent times, and with a large gas prospect already mapped on legacy seismic data the company is hopeful of attracting an industry partner to fund drilling.

Offshore, Pilot Energy has acquired an 80% working interest in each of two exploration permits.

WA-507-P is a large permit, on trend with the major gas fields of the Carnarvon Basin. The three prospects mapped thus far on existing 3D seismic data offer potential for multi-Tcf gas

discoveries, in addition to oil potential. Gaffney Cline & Associates have independently assessed the permit as hosting prospective gas resources of approximately 10 Tcf in the best case, with up to 20Tcf in the high case. Statoil, Eni and Shell are all chasing the oil play immediately to the north of our permit, and we anticipate being able to announce very significant prospective resources for the oil case in the coming weeks.

WA-503-P is a shallow water permit situated in the middle of the Legendre oil trend. Existing 3D seismic data reveals three prospects, with individual prospective resources in the range of 10 to 40 million barrels of oil (Pilot Energy's best case estimate). New 3D "Broadband" seismic will be required to de-risk the prospects prior to drilling, and the company expects to be able to acquire that data on very favorable commercial terms. Pilot Energy is preparing for independent confirmation of the prospective oil resources, and will announce the results in due course.

***Your company has successfully built a high quality and well-balanced portfolio of assets, within a very short space of time, on terms that are favorable and with commitments that are achievable.***

Corporate costs have been reduced significantly after closing the company's Adelaide office and terminating unnecessary third party service contracts. Pilot Energy has established a management remuneration structure that is reflective of the current industry environment, unlike so many other junior E&P companies that continue to reward their executives highly despite steep declines in their share price.

All four directors are heavily committed to Pilot Energy, having invested some \$300,000 of their own money in to the company. The company has a "lean team" of industry professionals who are highly motivated to succeed. I am personally proud of what that team has been able to achieve over the past 12 months, in terms of positioning the company for significant growth - particularly on the back of an eventual industry recovery.

Despite the current industry downturn I am excited about the opportunities available to Pilot Energy. Your Board look forward to receiving your support as they implement the company's strategy to build a leading junior oil and gas player, and look forward to keeping you informed of progress on our exciting new asset portfolio.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Gavin Harper', written in a cursive style.

**Gavin Harper**  
**Chairman**